PROPERTY TAXATION IN INDIA

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Edited by

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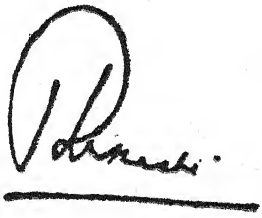
FOREWORD

During the last few years interest has been aroused in the effective utilisation of property taxation in India. Our quarterly journal on urban affairs, *Nagarlok*, responded to this interest by bringing out three special issues covering this area (1976—No. 4; 1980—No. 3; and 1981—No. 2); besides other articles were also published in the regular issues. In order to bring all the valuable and stimulating ideas contained in the past issues of *Nagarlok*, we decided to publish a special volume on this subject by bringing together a selection of some important papers with an introduction connecting these around important and contemporary issues.

Our efforts would be amply rewarded if this collection of papers is found to be useful by the students of the subject, as well as by the practitioners in the field. I am grateful to Professor A. Datta for editing the volume in a short time.



(P.R. DUBHASHI)
Director
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INTRODUCTION

The papers collected in this volume written during the last ten years focus on the areas of reform in property taxation in India. It is appropriate to introduce the papers in terms of the following themes : (*i*) major issues, (*ii*) valuation practices, (*iii*) alternative bases, (*iv*) rate structure, and (*v*) tax administration. Many of the papers cover more than one of these themes, but from the angle of identification of their major thrust it is convenient to classify these in terms of the above areas.

Major Issues

Three papers by Rama Rao, Venugopal Rao and Schroeder raise the major issues of property taxation. The main point of Rama Rao is that the willingness of the municipal authorities in resource mobilisation through proper assessment and rate structure is the most critical. Venugopal Rao attempts to link property tax policies with those of the varying conditions and requirements of urban development. According to Schroeder, the major difference in tax policy in the United States and India lies in their housing policies and not so much in property tax *per se*.

Valuation Practices

Valuation practices in property taxation are major concerns in as many as four papers: by Naidu, Balachandran, Malhotra and Schroeder. Naidu reports dissatisfaction with the prevailing annual rental valuation (ARV) method in Andhra Pradesh and attempts to introduce capital value (CV) method for assessment of owner-occupied properties, through an amendment. The CV in this case was defined in terms of the total estimated value of the property with reference to the prevailing market rates for different materials used, the age of the building and allowable depreciation on a graded system. The valuation, therefore, depended on the engineering classification of the buildings and the determination of their age, ignoring the locational factors. This system could not be operationalised in practice due to a stay order issued by the High Court and was subsequently abandoned through a repeal of the amendment.

Balachandran makes a detailed examination of the legal problems of valuation and comes to the conclusion that most of the difficulties

being experienced now are due to the operation of rent control legislations in determining the scope of valuation and in order to remove this hurdle, the obvious course is to tackle the problem at its source, *i.e.*, the rent control legislations themselves, and not tinkering with the general legislations on municipal authorities.

Malhotra makes a detailed analysis of the existing administrative procedure of valuation and assessments and discusses the organisational aspects of a central valuation agency (CVA) in that context. His conclusion underlines the difficulties in determining the structure and functioning of a CVA; this perhaps is indicative of the reasons for not attempting to create a CVA by the states in spite of the supposed benefits flowing from such an agency.

Schroeder makes the point in his paper that the basic problems of property tax assessments in the USA and India are surprisingly similar, such as, assessment lags, assessor discretion and the role of the state governments.

Alternative Bases

The question of alternative valuation bases has been dominating the discussions on property taxation in India ever since the Local Finance Inquiry Committee report in 1951 and this volume contains four papers on this theme : by Ramakrishna (with comments from Banerjee), Ammukutty, Jha and Mohan. Ramakrishna's proposals are a refined version of the Andhra Pradesh attempt to introduce a so-called CV method; this is not surprising in that the author coming from the same state probably had a hand in the attempted change-over to the new system (his proposed schedule refers to the Property Tax Rule of the Hyderabad Municipal Corporation). In spite of these antecedents, Ramakrishna's paper contains the most original set of proposals for the reform of property tax base. Banerjee's comments bring out the fallacies in Ramakrishna's proposals, while Jha considers it along with other similar suggestions for advocating an area-based valuation system in India and abroad. Ammukutty advocates the adoption of a site value-based system of valuation on the basis of her empirical investigations into the levels of valuation in a part of Delhi on the existing ARV method. Mohan surveys the whole problem of alternative bases and advocates valuation standardisation as a guideline for assessment training, monitoring and checking valuations, rather than to be pursued as an objective which is patent in all recent proposals on the area-method of valuation. My own view expressed elsewhere is "that standardisation of letting values for determining ARV is a procedural refinement for assessment valuation on the existing rental base and not a tax on area

measurement alone".[1]

Rate Structure

Two papers, by Sarma and Kapoor, deal with the problems of rate structure. In view of the operational difficulties in a tax-price charging system of a combined basic tax with a number of service taxes, Sarma suggests a family of property tax systems for various categories of properties having different base-rate structures coupled with an adequate system of user charges for urban services. Kapoor makes a plea for standardisation of property tax rates among various size-categories of municipalities in West Bengal. One could point out that standardisation of rating flows from a positive policy of grants based on the difference between a 'standard rate' and the actual rate adjusted by the taxable capacity indicators (tax base) : this is relevant under a system of equalisation grants. Without linking the state grants policy with the relative tax efforts, it is somewhat trite to advocate a mechanical rate standardisation.

Tax Administration

Three papers cover the subject of tax administration : the one by Singh examines the administration of tax collection in Haryana and makes specific suggestions for improvement; Bhattacharya's paper deals with the procedures of assessment administration in Calcutta and Goyal recounts the experience in Delhi of an attempt to mechanise its property tax administration. All the three papers are detailed case studies of tax administration obtaining at the municipal level and are pointers for tax management improvement elsewhere as well.

The fifteen papers presented in this volume thus cover a wide range of issues concerning property taxation in India and provide valuable insights into the ideas and practices surrounding its utilisation.

NEW DELHI
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ABHIJIT DATTA

[1]See Book Review : "Property Tax Administration", edited by M.A. Muttalib and N. Umapathy, *The Indian Journal of Public Administration*, Vol. XVII, No. 2 (April-June, 1981).

CONTENTS

Some Problems of the Property Tax

S. RAMA RAO

PROPERTY TAX, a levy on the lands and buildings constitutes an important source of revenue to the local authorities in India. States where there is octroi levy, the property tax forms secondary source of revenue. The purpose of the paper is to highlight and analyse some of the important aspects of the property tax.

BASES

The property is assessed on capital or annual value of lands or rented properties respectively. In the case of the former the capital value of the property is taken into account while in the annual, the hypothetical value of rent. In a sense, both the bases, are spurious and unscientific, because, in both the cases, sales evidence and correct information are not available. The question now is that what basis of assessment is suitable to the municipalities in a developing economy. To answer this question, let us devote a few lines to the study of the relative advantages of these bases.

The main advantage of the annual value is that it is based on the income (flow) concept and is much easier to explain to the tax payer—what he has to pay is just a percentage of his rent. This system will be a success when there is a good deal of renting. But, under this system, a developing town authority will forego a certain advantage which might be obtained due to rise in property values. The reason is that the rental value basis fails to take into account the rise in the property values because the true value may far exceed the capitalised value of rent of the present property, and the true value will go on rising as the town develops, although the rent may have been fixed long ago.[1]

This drawback can be avoided by undertaking frequent revaluations, say for every five years, so that any increase in rents will be included in the valuation. But even so, just because an annual value is tied to the

[1]Ursula Hicks, *Development from Below: Local Government and Finance in Commonwealth Countries*, Oxford, Clarendon Press, 1961, Ch. 16, p. 356.

current user, the tax base will not rise so fast as when a capital value base is used. Thus Lady Hicks argues that in a developing country it is normally more advantageous to use a capital value base.[2]

The annual values take the situation as it is and the future values are not taken into account. In short, the rental value is the current or the average of several years. Selling prices, however, take into account not only the present rent which the property commands but also the market expectation of future rents which can be foreseen from the expected development of the property or the neighbourhood.[3] Gyanchand says that the capital value makes a more correct estimate of economic importance and therefore the taxable capacity of the owner.[4]

In a tax system equity is important so that the burden will be in accordance with ability to pay. And, its relevance is greater in the case of property tax and the tax burden is supposed to be greater with annual value basis in especially underdeveloped areas. As between built-up and underdeveloped areas rental values tend to create discrepancies in tax powers because of the paucity of rental evidences and the resultant depressed valuation in the latter.[5] This may account for a greater cost-revenue gap in poorer areas, and if the rates in these areas are revised upwards, this is likely to have what Lady Hicks calls, negative effects causing movement of resources to richer areas in order to avoid higher rates and thus increasing regional imbalances. In case of capital values, inter-local rates may not vary much as these values do not exaggerate inter-local differences of resources to the extent a rental value would do.[6] There are various considerations which make capital value tax convenient:

(*a*) the central valuation rolls can be profitably used by local bodies where central wealth tax exists;
(*b*) rental values, if available, can be capitalised as corroborative evidence to capital value; and
(*c*) cost of replacement of building minus depreciation or obsolescence can work as an alternative if and when sale evidences become difficult. It may also be noted that in view of the elasticity of the capital value base the marginal cost of administration of the tax

[2]Ursula Hicks, *op. cit.*, p. 357.

[3]Ursula Hicks, *Public Finance*, London, Cambridge University Press, 1967, Ch. XI, p. 175.

[4]Gyanchand, *Local Finance in India*, Allahabad, Kitabistan, 1947, Lecture III, p. 103. Also see Harriss Lowell C., *Land Taxation and Economic Development*, Istabul, 1970.

[5]K.K. Sinha, "Case for Capital Tax in Developing Economy", *Quarterly Journal of Local Self-Government*, Vol. XII, No. 3, Jan.-March 1971, p. 226.

[6]Ursula Hicks, "Autonomous Revenues for Local Government", *Western Economic Journal*, Vol. VI, 1968,

may be more than offset by the marginal increase in revenue.[7]

Shoup opines that the gross rentals will be somewhat less satisfactory than the capital value tax with respect to consensus equity, because a few additional discontinuities will usually appear, owing to the difficulty of defining real estate under capital value tax.[8] In a country where renting of land and building is a normal practice, it would be better to apply annual rental value rating. "One can argue from the British experience itself, that", says Sir John Hicks, "in a country where good rent evidence was normally lacking, the adoption of the British system of rating would be unwise."[9]

Generally speaking, capital values are influenced by cyclical fluctuations rising in a period of prosperity and falling in a period of depression. And thus capital values tend to reflect the oscillations of the cycle—and are less accurate as a basis for levying property taxes than the current income or rental value of property.[10] Moreover, capital values are more difficult to assess correctly than annual values; the price of a recently sold property may not be a good indicator of values of other properties in the neighbourhood. Every property has its advantages and the advantages with which a property is endowed leave their mark on its true value. "For the reason", to quote Lady Hicks, "an element of judgement enters into the valuation which is absent from annual valuation, at least where there is widespread rent control, and this leads to uncertainty and loss of objectiveness."[11] John F. Due suggests that the capital value approach appears to be far more satisfactory for developing economies than the annual rental basis. With the rental basis, improvements lead to immediate tax increases, and the taxes are tied to existing building rather than potential ones.[12]

Another reason in support of the capital value rating is that the *developmental* value of property is reflected in the assessment, which is based on market selling prices,[13] and vacant sites as rated. The full deve-

[7]K.K. Sinha, *loc. cit.*, pp. 227-28.

[8]Carl S. Shoup, *Public Finance*, Weidenfeld Nicolson, London, 1969, Ch. 15, p. 400

[9]Sir J.R. Hicks, *Essays in World Economics*, Oxford, Clarendon Press, 1959, Ch. 11, p. 240.

[10]J.P. Picard, *Changing Union Land Uses as Affected by Taxation*, Washington, D.C., Research Monograph, Urban Land Institute, 1962, p. 30.

[11]Ursula Hicks, *Public Finance*, *op. cit.*, p. 175.

[12]John F. Due, *Taxation and Economic Development in Tropical Africa*, Cambridge, Mass., The M.I.T. Press, 1963, Ch. 7, p. 117.

[13]To take into accout the speculative element, capital value rating is essential. In their Jamaican case study, Sir John and Lady Hicks stress on capital value of unimproved land. See their "The Taxation of Unimproved Value of Land", in R. Bird, and O. Oldman, (eds.) *Readings on Taxation in Developing Countries*, Baltimore, The John Hopkins Press, 1967, Ch. 33, pp. 431-41.

lopment and use of the properties is thus encouraged. The valuation of owner occupied property is more truly in accordance with real values than is the case with assessment on an annual value basis, and the actual valuation in these cases would give rise to fewer difficulties. The system is thus particularly suitable where there is a larger proportion of freehold property."[14]

However, the *Taxation Enquiry Commission (1953-54)* felt that the fixing of the annual rental value of residential and rented buildings, which forms a major proportion of the buildings in towns and cities is simpler than the determination of their capital value.[15] Further, the Commission felt that the capital values of properties fluctuate to a more significant extent than rental values. The levy of the tax on the basis of actual or reasonable rent is a levy on actual or potential income from the property and to that extent is a more equitable method of taxation than one based on capital value. Therefore, it recommended that the annual values based on the rent at which properties may reasonably be expected to be let, should be the normal basis for the levy of the property tax, subject to the basis of capital value being adopted in special cases.[16]

In the light of the analysis above, it may be concluded that no basis of levy is free from bottlenecks. However, as opined by the experts, annual rental value is inadequate and does not in any way help in mopping up unearned increments because its value is tied to the current user, potential value is not considered under this basis. Unless the annual values are adjusted in the light of the current conditions, it would be fruitless to use that as a basis of rating. Added to this, Rent Control Act has frozen the rents to be estimated under the annual value rating and this is bound to affect the advantages even when the municipalities are prepared to revalue the properties. A suitable measure in this respect, of course, is to make the Rent Control Act flexible to suit the prevailing conditions.

Therefore, if the rental value basis were to be retained, the Rent Control Act should be amended so that the municipalities can gain to meet their expenditure requirements; otherwise, the State should propose a scheme of recouping the municipalities the loss of revenue. Since the former alternative is undesirable, the latter proposal appears unavoidable. In this connection, Sir John Hicks opines that it would be better to consider that rents fixed in the past, or carried over by custom from the past, require adjustment in the light of current sales.[17] And thus he concludes that the method of valuation depends on the type of evidence which

[14]Report of the Study Group of the Royal Institute of Public Administration, *New Sources of Local Revenue*, London, George Allen & Unwin, 1956, p. 68.

[15]Government of India, *Report of the Taxation Enquiry Commission*, New Delhi, 1953-54, Vol. III, Ch. III, p. 543.

[16]*Ibid.*

[17]Sir J. R. Hicks, *op. cit.*

is more readily available.[18]

It would, however, be more appropriate to use capital value basis because it takes into account not only the present but also the potential value of the property which serves as a better guide, in developing countries.

ASSESSMENT AND TAX RATES

The defective assessment of the property for tax purpose is one of the main bottlenecks that has impaired its elasticity and productivity. It may seem pertinent to discuss how the present assessment is undertaken in the light of the historical retrospect. The Act of 1850 authorised voluntary associations in towns to raise the required funds for the purpose of meeting the municipal service charges. No hard and fast rule was laid down and the commissioners were given considerable latitude in the matter.[19] The greater difficulty in the levy of the property tax arose from the absence of statutory rating and assessment committees. There was a provision in the Act for revising the assessment of the rental value once in every five years, but, in the absence of properly constituted assessing authorities, the practice had been to accept the rent receipts granted by the landlords to the tenants as the basis of taxation.[20] Instances were not wanting where, under clandestine arrangement with tenants, landlords granted receipts for accounts lower than the actual rents received, thereby defrauding the municipality of its legitimate revenue.[21]

Moreover, the assessment of properties which were in the immediate possession and enjoyment of the owners themselves, created difficulties.[22] In the District municipalities of the Madras Presidency, a majority of the inhabitants lived in their own houses, and, consequently, there was an absence of reliable data on which their rental value could be assessed.[23] The taxes were levied on a rough estimate by the low-paid municipal assessors, and that provided opportunities for corruption.[24]

Thus the historical background of the property tax reveals that due to

[18]Sir J.R. Hicks, *op. cit.*, Also see K.K. Sinha, *Local Taxation in a Developing Economy*, Bombay, Vora & Co., 1963.

[19]K. K. Pillay, *History of Local Self-Government in Madras Presidency, 1850-1919*, Bombay, The Local Self-Government Institute, 1953, Ch. VI, p. 180.

[20]V. Venkatarao, *A Hundred Years of Local Self-Government in the Andhra and Madras States, 1850-1950*, Bombay, The Local Self-Government Institute, 1960, Ch. I.

[21]K. K. Pillay, *op. cit.*

[22]*Ibid.*

[23]M. Venkatarangaiya, *The Beginnings of Local Taxation in the Madras Presidency. A Study in the Indian Financial Policy*, Calcutta, Longmans, Green & Co., 1928, pp. 1-43.

[24]K. K. Pillay, *op. cit.*

lack of property constituted assessing authorities, false statements furnished by the tenants prompted by landlords; difficulty with regard to taxing of owner-occupied properties and betrayal of trust by the low paid municipal assessors resulted in large scale reduction in the yield of the tax. Almost all these difficulties continue to persist and let me briefly narrate how the present assessment is defective.

It is no better than the past because the officials deputed by the state government are those who have experience in revenue collection and not in assessment. Instances are not lacking whereby sanitary inspectors are asked to take up assessment programme. Under these circumstances, assessment cannot be objective, accurate and scientific and at the same time assessment is a job which requires technical expertise. Besides, the assessor's failure to assess the property, either because of his inefficiency and corruption or both; the tendency of understatement on the part of the landlord is at its full swing.

Assessment is inefficient while underassessment and overassessment are rampant in most of the municipal areas—these have largely been responsible for inequality and unfairness. Similar observation is made by Professor Tripathy who says in the context of the Bihar municipalities that very often in case of persons with substantial holding of property and large local influence, the annual value is underassessed whereas holdings owned by people with small income and very small in size and in bad conditions are overassessed.[25]

The Need for a Central Valuation Agency

Under these circumstances, it would be better to have an independent central valuation agency in each State, consisting of economists, technical experts and officials from the municipal administration. The essence of the proposed arrangement is that the agency can be asked to carry out valuations as rapidly as possible so that the agency will have the same background and price structure.[26] Another advantage with this agency is that even the municipalities with limited financial resources can have the greatest advantage. The local bodies whose limited resources do not permit the employment of highly paid qualified valuers, will be able to get the services of such experts. Once the agency is set up, reassessment[27] can be taken up systematically at regular intervals and the cases of unequal and underassessment which are very common now, can be removed to a large extent.[28] At the same time, the agency can not only increase the

[25]R. N. Tripathy, *Local Finance in a Developing Economy*, New Delhi, Planning Commission, Government of India, 1967, Ch. VIII, pp. 138-39.

[26]Ursula K. Hicks, *Development Finance: Planning and Control*, Oxford, Clarendon Press, 1965, p. 80 and 120.

[27]*Ibid.*

[28]Report of the *Augmentation...*, *op. cit.*, p. 39.

yield, but also greatly increase equity by bringing in the many properties which at present escape valuation.[29]

Importance of Revision

In our municipalities, it cannot be confidently said how far there is a rise in the number of taxable items (buildings) due mainly to lack of complete and comprehensive revisions. In municipal jurisdictions where the revision has been carried on, the facts of those revisions were not allowed to be enforced because of the injunctions of the courts. These have helped a large number of properties escape tax liability.

Vijayawada with its 9 per cent annual rise[30] in assessments takes pride of place among the municipalities in Andhra Pradesh. In Guntur municipality it is reported that some hereditaments miss the tax liability for the reason that the municipality lost its records in the fire accident during 1966-67. No efforts seem to be made by this municipality to restore the lost data, by preparing new lists for revision purpose.

As a matter of fact, developmental activities in a local area stimulate a rise in the values as well as number of properties (buildings). With a view to appropriating the rising values (in whole or in part), the tax rates have to be revised. This is desirable in our local areas and may be taken up by a central valuation agency. Quinquennials revision is convenient and less expensive than an annual one. Moreover, annual revision besides being costly would not prove to be advantageous because, property values will not be appreciable enough to justify the cost of revision.

Tax Rates

Let us analyse the rates of the property tax. Precisely it cannot be talked about the amount of tax incidence in the municipal jurisdictions because of the non-availability of data. There is inequality of tax burden and it is not only due to improper assessment but also due to high rate burden. As seen, it is clear that the tax rates are regressive in terms of poor level of civic services. In the context of growing urbanisation and widening gap between the desired[31] and existing level of municipal services, the present tax rates are very high and should be reduced at least by 5 per cent. The tax burden has to be distributed in accordance with the principle of ability-to-pay; but, this unfortunately does not appear to have been taken into account.

The regressiveness of the property tax rates appears to be due to two

[29]Ursula K. Hicks, *Development From Below*, Ch. 16, p. 366-67, Also see her *Public Finance*, Ch. IV.

[30]*Report of the High Power Committee on Municipal Finances in Andhra Pradesh*, Govt. of Andhra Pradesh, Hyderabad, 1971, p. 116.

[31]See Abhijit Datta, *Urban Government, Finance and Development*, Calcutta, World Press, 1970, Ch. VI.

factors: State government's failure to prescribe a practicable set of rates on a graded basis and the municipalities' reluctance to enforce genuinely the directives of the state government. What seems to be desirable is to reduce the tax rates and break them into several classes applicable correspondingly to grades of capital or annual value of the property.

The notion that the property tax failed to be an elastic source of revenue to the municipalities is based on the fact that the properties are under assessed; and, not due to the rates which are presumed to be low. Mobilisation of additional revenues is desirable and this can be achieved not always through a rise in the tax rate, but by proper assessment and collection. This is what is largely called for in our municipalities.

Property Tax Effects on Structures

The supply of buildings presents a striking contrast to land. Heavy taxes on buildings produce several non-revenue results.[32] A high rate of property tax hits well-constructed, high quality structures more than it does slums and junk. The element of property taxation which falls on buildings creates an incentive against upgrading of quality. Such undesirable discouraging of private effort to raise quality does not come from the tax on land. When his tax bill goes up because an owner has constructed a better building, he does not get correspondingly more or better government services. But his investment will usually have produced advantage for others around. As compared with the old, deteriorated, property on which tax was low, the new, high-quality building will bring the general public positive 'neighbourhood benefits'. In urban areas the property tax, combined with fragmentation of government units, has a distorting effect on land-use patterns.[33]

It would be quite interesting to study the tax rate and the supply of buildings. Theoretically, a fall in the tax rates stimulates[34] new buildings because it raises the net price people are prepared to pay for housing-accommodation. Buildings which would not have been profitable to build before the reduction now become profitable. For essentially the same reason, a fall in rates stimulates repairs to existing buildings. When there is a rise in the rates the pace of house building will be checked. These reactions would not stop here and they will lead to the migration of capital to those areas where the tax rate is relatively

[32]Lowell C. Harriss, "State-Local Taxation: An Overview", *The Tax Magazine*, April 1972, p. 237.

[33]James A. Maxwell, *Financing State and Local Governments*, Washington, D.C., The Brookings Institution, 1969, Ch. VI, pp. 132-33.

[34]Ursula K. Hicks, *Public Finance, op. cit.*, pp. 170-73.

lower.[35] Similarly, when the tax rate is low, it would encourage the flow of more capital to the building constructions.

Now, let us see the relationship between the supply of buildings, the tax rate and the rents. In this model, two persons (landlord and tenant) are involved and three variables, (buildings, tax-rate and rents) simultaneously interact. In the first instance, where there is a fall in the tax rate, we assumed that new buildings will be built, and this adds to the supply of buildings and competition brings rents down. Thus, in the first phase, there may be some tendency for landlords to benefit from a fall in the rates, in the following phase the advantage is transferred back to the tenants. In the same way, part of the advantage got by building owners from a fall in rates will be lost to them when increased pace of building diminishes the value of their property.

The same process holds *mutatis mutandis* in case of a rise in rates. The pace of house building will be checked, consequently the ability of the tenants to transfer their increased rate liability to the landlords will be limited by the scarcity of buildings. Looking at the matter generally we may say that, the effective incidence of rates will in the end be transferred to the landlords. But, if the effect on new buildings is large, most of the effective incidence will remain on the tenant.

A high rate of tax would drive capital to those areas where the rate burden is relatively lower. At the same time, a higher rate would tend to make the cost of maintaining the building high which is not conducive to the building development. What appears to be desirable is to find an equilibrium between the minimum and maximum rates leviable so that it would at once ensure stable revenue to the municipalities and not impede the building growth and development. But, then, what should be the equilibrium level of tax rate to municipalities or to a particular municipality is difficult to determine because the financial requirements of the municipalities differ significantly. Under these circumstances, it seems sensible to leave the discretion to the municipalities themselves, after prescribing tax rate minima and maxima.

More Investment in New Structures

A reduction of tax rate on buildings would reduce the numerous and substantial ill effects of the present tax. The 25 to 30 per cent of the annual value tax equivalent for housing would cause deleterious effects to the building activity. The tax relief for obsolete buildings should be slight. For fine, new buildings, the tax reduction could be large in rela-

[35] Ursula K. Hicks, *op. cit.* Also see Burkhead, Jesse, *State and Local Taxes for Education*, Syracuse University Press, 1963, p. 106. Professor Burkhead offers optimistic conclusions concerning trends. He suggests that although imperfections remain, property tax resources do tend to be more metropolitan-wide overtime.

tion to return on investment. For a time the owner (or depending upon rental contracts, the user) would enjoy a windfall of higher after-tax income. Market forces, however, would respond to alter matters. How? By supplying more buildings, new and better. Lowering for the years ahead the tax on (new) buildings as an operating expense will increase the attractiveness of cash investment. The competitive position of building in the demand for capital funds will rise. Every decision involving the construction, modernisation, improvement or demolition of buildings must be weighed against the tax results. The greater the tax on structures, the fewer the number of investment projects. Lowering the tax ratio would raise the legitimate expectations of benefiting from more investment (in quantity and quality) in housing and other types of buildings.

Market forces will work to replace the old buildings with new because the cost of using new (as compared with old) will not include the large element for government expense now required by the property tax. The owner (or tenant) using the buildings will get more in benefits of occupancy for his rupee. The mighty forces of private enterprise—large in some cases, small in others, will work with fewer impediments in channelling capital funds into new buildings.[36]

Vacancy Remission

These are two types: one is due to poverty and the other for vacancies. In case of the former, excessive hardship and indigence are taken into account, whereas the vacant or unoccupied period of the property is considered in the latter case. Let us now consider the properties eligible for remission. A general rule in this case is that the property owners or tax payers who are in the arrears to the municipality are not entited for remissions. This is more similar to the provisions that a person in arrears is not eligible to contest for the municipal elections. When a property is vacant for a period of 90 days in a year, remission is granted to a maximum of one half of the amount of the tax to be paid. Properties reserved for occupation or intended to be used are not eligible for remission. Seasonal industries in whose case the work is generally suspended for some time are not considered to be unproductive and therefore not allowed remission.

Cases of perpetuation of irregularities in the guise of remission have come to light. Employees of some municipalities have been indulging in collusion with the landlords and reporting occupied properties as vacant in certain cases. Where the municipal executive fails to take note of the situation or review the list of vacancy remissions, these unhealthy practices appear to be rampant. Measures to counter this are: firstly, to reduce the period allowed under remission so that the vacancy remission may be

[36]For more discussion of the economic forces governing the flow of capital. See Lowell C. Harriss, *The American Economy*, *Homewood*, Richard D. Irwin, Ill., 1968.

unattractive; and secondly, to make the payment of the service charges compulsory. The latter measure can be justified on the ground that the municipality has to render its services in general, regardless of the vacancy of the particular parcel of property.[37]

TAX COLLECTION

The property tax is badly administered because both at the levels of assessment and levy municipalities have awfully failed. A large bulk of the revenue is forgone because of the municipalities' negligence and also due to intolerable corruption, bribery and misappropriation. As far as collection is concerned, there is discernible or growing unwillingness to pay the property tax in the municipalities of Indian states and a complaint levelled is that the tax does not confer corresponding benefit. It is unfortunate that with a weak tradition of local government in many of our towns (as also noted by Lady Hicks), it is often very dilatory in paying attention on the productive taxes.[38] Some Indian States found it desirable, in order to galvanize local bodies into activity or strengthen their hands *vis-a-vis* the taxpayers, to enforce minimum rates of taxes.[39]

The municipalities have to see that the arrears do not accumulate, and there are no delinquent cases. Recourse must be had to the civil courts or a threat of imprisonment must be made available. Clearly the latter is not desirable, although as a way of securing payment it is practicable, since the social security system of the extended family is still strong enough to ensure that payment will be forthcoming.[40] The difficulty with the legal action is that the procedure tends to be very slow so that the tax arrears may go out of hand. And, in order to overcome this, the possibility of special court for property tax rate cases should be examined.[41]

Streamlining the tax administration and establishing useful relations with the taxpayers are some of the measures required to improve[42] tax collection. The absence of periodic transfers[43] of the tax collection staff resulted in fraudulent practices in tax collection. Transfers have to be

[37]For a detailed analysis, see M. K. Bhattacharya, "Property Tax in Urban Local Bodies in India: An Examination of Some Important Issues", *Quarterly Journal of Local Self-Government*, Vol. 39, April-June 1969, pp. 265-66.

[38]Ursula K. Hicks, *Development From Below, op. cit.*, Ch. 18, pp. 415-16.

[39]*Ibid*, p. 416.

[40]Ursula K. Hicks, *Development Finance, op. cit.*, p. 82.

[41]*Ibid.*

[42]As a measure to improve the property tax collections and reduce expenditure on tax collection personnel, the *High Power Committee... op. cit.*, has recommended the need for opening counters in the municipal town.

[43]The Government of Maharashtra has introduced transfers to the tax collection personnel with a view to achieving high levels of tax collection.

made and departmental supervision has to be effectively enforced so that there would be an improvement in the standards of tax collection.

There should be purposeful relations between the tax-payer and the tax administration. As the property tax is one of the direct taxes, and as direct taxes are bound to be more strongly resisted than indirect taxes, the cooperation of the tax-payers is essential. Where there is a tax rise, the administration should explain the reason for such an enhancement. Lady Hicks feels that it is desirable to take special steps to reassure tax-payers that it will be spent on something for which they have a real desire[44] (such as education for instance). She furthur opines that in a developing country more direct contacts and purposeful public relations with tax-payers may be necessary, at least until the system is understood.

It may also be suggested that for each tax collector, a target of collection should be fixed for every quarter of a year and if he fails to fulfil ninety per cent of the target he should be punished for his failure.[45] The information available indicates that the average percentage of tax collection to total (current and arrears) demand in the Indian municipalities is 37·6 and it is 74.9 per cent[46] during 1960-61. While the current collection is not very much encouraging in some municipalities, the arrear collection of the property tax is lamentably poor. It may be added that the success of the property tax depends not only upon the assessment and tax rate, but also on its collection. In other words, objective assessment as well as levy are not an end, being only a means to an end, namely, fair and prompt collection.

OVERVIEW

Our municipalities are not short of revenue potentialities, but what is wanted is the intention to use them. Even though the selection of base is a controversial issue and switching over to large-scale resentment from the rate payers, there seems large scope for the capital valuation. The inflationary trends cause upward movement in the cost of civic services which require more money. However, the sources of revenue over a period remained stationary but the financial commitments kept on increasing. This should be appreciated by the tax-payers and by the tax paying authorities.

While this is the situation with respect to the selection of the base, assessment and levy require a number of reforms. Complete and comprehensive re-assessment has hardly been done, and in those cases where

[44]Ursula K. Hicks, *Development Finance*, *op. cit.*

[45]R. N. Tripathy, *op. cit.*, p. 153.

[46]Report of the Committee on *Augmentation of...*, *op. cit.*, Appendix IV, p. 358. Also see Abhijit Datta and David C. Ranney, *op. cit.*, Ch. I.

it has been carried out, litigations have sprung up and impaired the operation of the revised rates. At the same time, angularities, unfairness, and lack of expertise have also come in the way of assessment. Under these circumstances, a Central Valuation Agency can be resorted to be a better alternative. The standards of tax collection have to be improved. While the municipalities are tapping only a small amount of their existing potential, the collection performance is less than satisfactory. Incentives for higher performance of collection and deterrents for the performance below a prescribed limit would help the situation. □

Towards an Expanding Property Tax Base

K. VENUGOPAL

PROPERTY TAX is among the most important sources of revenue to local governments everywhere. Even though this tax source has often proved difficult to administer, local governments have held on to it because they have few alternative tax sources left to them.

PROPERTY TAX AND TOWN-SIZE

This tax source accounts for nearly 88 per cent of the total revenue of all local governments and 70 per cent of the total revenues of all municipalities in USA.[1] In India, it constitutes about 70 per cent of the revenues of municipal corporations and 48 and 28 per cent respectively of the revenues of municipalities and notified town areas and committees.[2] It appears that the property assumes greater importance with increasing town-size.

This relationship between the share of property tax in the total revenues and increasing town-size is not without significance. Among the resource endowments available to a city its land is probably its most important assets. As a consequence, property tax which stems from the use of land should contribute greatly to the city's financial needs.

NEED OF AN EXPANDING TAX-BASE

A city is a large congregation of people who work within a clearly identifiable area. They live, work, produce, consume and recreate within this area. As their activity increases, the city attracts more people and its needs grow. More housing is one of the more obvious needs as the city grows ; along with this the need for other community services also increases. To provide for these, the urban community continually

[1]F. Durr, *The Urban Economy*, Scranton, Calif , Index Educational Publishers, 1971, pp. 112-13.

[2]Government of India, Report of the Committee of Ministers on *Augmentation of Financial Resources of Urban Local Bodies*, New Delhi, 1963, p. 142.

requires more and more resources as it grows. If the increasing civic needs are to be met without a decline in the standards of the civic services provided or in the quality of civic environment, the property tax must contribute increasingly to the city's finances. In turn this means that the property tax base must expand progressively which may be either through an expansion of the city's geographic limits or through an increase in the tax rate or both.

The expansion of the tax base as the city grows is often marred by the decline of the central city and the movement of the more affluent to the suburbs. While these suburbs can be brought within the city limits the declining property values in the central city lead to an erosion of the property tax base. Where the new suburbs cannot be brought within the city limits for one reason or the other, the supply of land is inelastic and the erosion of the tax base assumes serious proportions. Invariably, as the city grows, the city administration needs more space, more land has to be provided for public recreation and such other facilities, all being tax exempt accentuate the erosion of the tax base. Inevitably then, any form of property tax must not only counteract the natural erosion of its base with city growth but also provide for progressively increasing revenues through a continuous process of revaluation of properties. To neutralise the decreasing revenues from central city decline it must also incorporate in its structure elements to induce urban renewals.

PROBLEMS OF REVALUATION

Wherever levied the property tax even now contains provisions for progressive revaluation of properties. However in practice this revaluation has presented problems in almost every country. It is difficult to estimate the real market value of any property. True, when a property is sold its true market value is established with a large degree of certainty. Such transactions are, however, few and far between. It may be agreed that the appreciation in value is actually observed when one property turnover would be applicable to all others in the neighbourhood. But no two properties are strictly the same. Even though property assessors have guides in ascertaining property values they can never be anything more than broad guidelines. And to this must be added the frailties of the assessors and the assessment procedures too.

Property tax as prevalent in India is based on the annual rental value of the land and the buildings standing on it ; it is either based on the actual rent which the owner receives for the premises or on a reasonable rent which a hypothetical tenant may be expected to pay the owner. Every building is assessed along with the parcel of land on which it stands. The annual rental value is deemed as the gross annual rent at which the whole premises can be reasonably expected to be let with

deductions for repairs and maintenance necessary to command the assessed rent. In the case of buildings which fall under the purview of rent control provisions, annual rent is taken as equal to the standard rent fixed by law. Provisions exist to provide concessions to owner-occupied residential premises and remissions to places of worship, schools and other public premises.

RENTAL VALUE *VS.* CAPITAL VALUE

The report on Augmentation of Financial Resources of Urban Local Bodies[3] has indicated the following defects in the existing system based on rental value assessments :

1. It is not comprehensive.
2. It does not bring the 'soaring land prices' within its purview.
3. In the cases of premises covered by the Rent Control Act, the rents are virtually frozen and therefore there is no tax yield from these properties.
4. It has given rise to land speculation.
5. It acts as a disincentive to intensive use of land in big cities. Insofar as the rental value system does not take into account the appreciated value of land, it offers no incentive to the land owner to build as much as is permissible under the building bye-laws.

As an alternative to this method of assessment it has been suggested by some that the tax be related to the prevalent market value of the property and not to the income derived from it as at present. Following are the advantages claimed for this method of assessment:[4]

1. Since the current market value is the basis of assessment it can be applied to all types of properties.
2. Appreciation in land value would be reflected in the market values of properties and since the tax is based on market value of properties the tax base would continually expand.
3. Since vacant land would also be assessed at its prevailing market value, it would lead towards intensifying the land use in cities.

Apart from inducing a more intensive land use, the capital value method of assessment has no other significant advantage over the rental value method of assessment. The prevailing market value of properties

[3]Report of the Committee of Ministers on *Augmentation of Financial Resources of Urban Local Bodies, op. cit.*

[4]Report of the Committee of Ministers on *Augmentation of Financial Resources of Urban Local Bodies, op. cit.*, pp. 41-43.

would again have to be inferred from a few sparsely distributed property sales or from the current income produce by the property or the current cost of constructing a similar building. In other words, if the rental values can be updated without much delay, in reasonable time, there would be little difference between the capital value and rental value assessment methods.

THE DELHI SURVEY

To get over the difficulty in assessment, creation of a 'central valuation' agency is one possibility. Another is to make periodic surveys of rentals paid as was done by the National Council of Applied Economic Research for Delhi city[5] in mid-1970.

In this, sample of households was selected through a stratified design in which streets or blocks were selected first, in each of the administrative zones of the city separately, based on the municipal records on assessment of house property. From these records a ten per cent sample of all houses in each street or block was extracted. The number of household living in the house and the total rent paid or assessed for the entire house were obtained from the municipal records. Based on these an average rent per household was calculated for each street or block. The streets or blocks were then stratified using the average rent per year per household into six strata: (1) less than Rs. 1,200 per year; (2) Rs. 1,201 to 2,400; (3) Rs. 2,401 to 3,600; (4) Rs. 3,601 to 6,000; (5) Rs. 6,001 to 12,000 and (6) Rs. 12,001 and above. Streets or blocks were then selected with probability proportional to the total rent paid or assessed for the streets or block as a whole. All households in the selected streets and blocks were taken as sample households.

While the above procedure was adopted for private housing a slightly different procedure was adopted for government housing. A complete list of all government housing was obtained from the respective authorities, typewise. Households were then selected with equal probability from each type. The total number of private households covered was 16,077.

Rent paid by the households was one of data collected. From this an average rent for tenant households and, the number of rooms occupied by the tenant households could be estimated. Since the sample included owner-occupied premises also the number of rooms occupied by owners themselves could also be estimated. As the sample was picked separately for each administrative zone the average rent per room (paid by a

[5]National Council of Applied Economic Research (NCAER), *Techno-Economic Survey of Delhi*, New Delhi, NCAER, 1973. (The Survey was restricted to residential premises only).

tenant) as well as the total number of rooms occupied by the owners and tenants could be estimated ; assuming that the rental value of owner-occupied accommodation is the same as that for tenants, in each zone the total rental value of all private housing was estimated at Rs. 495 million for urban Delhi :

	(*Rs. Million*)
Delhi Urban	494.906
Delhi Municipal Corporation	461.496
NDMC	42.944
Delhi Cantonment	0.466

Against the estimated rental value of Rs. 461.5 million for private residential premises in the DMC area, the rateable value of all properties in that area furnished to the Morarka Committee was only Rs. 244 million. A subsequent computation based on 'demands', slabwise separately for commercial and residential properties obtained from the Delhi Municipal Corporation gave a figure of Rs. 270 million as the total rateable value of all residential properties in the DMC area. This would indicate undervaluation of private residential properties to the extent of about Rs. 190 million equal to about 40 per cent in the Delhi Municipal Corporation area.

EFFECTS OF RENT CONTROL

It should be noted that in the above survey the 'average rents' obtained represented a mix of 'old' and 'new' rents depending on the year in which the tenancy commenced. Even more, no distinction was made between houses which fall under the purview of rent control and those which did not. The rationale for this was that unless rent control was removed there could be no increment in the rateable value of the property and therefore in the tax realisable from these properties. While rent control has been used to protect tenants in almost every country at some time or other, it is now universally recognised that this one measure has contributed greatly to urban decline in the older central city areas. Over time, while rents remained static, annual maintenance costs have increased to such an extent that they are now higher than the rent realised from these properties. It is uneconomic for the owner to maintain these properties in good order. No wonder one often reads accounts of house collapses with all its attendant miseries. Even in the more affluent countries one reads of whole blocks becoming derelict in the central city areas. It is not as if the deleterious influence of the rent control provisions on urban environment has not been realised ; time and again, committee after committee has indicated the necessity to give up this control. But it has persisted because alternate housing at reason-

able rentals has not been available to those who live in these derelict (or progressively becoming derelict) premises. At this stage it may not be out of place to mention that not all who live in rent controlled premises belong to the low income group; some of course are, but neither is it rare to come across people belonging to the high income group living in such premises. If the pace of house construction could be stepped up to meet the requisite demand continually, it should be possible to give up rent control altogether. An extent of the loss of revenue due to rent control may be gauged from the fact that the rateable value of rent controlled premises in the Delhi Municipal Corporation area alone is as high as Rs. 96 million[6] or roughly one-fifth of the Rs. 461 million estimated by the NCAER for all private residential premises in that area.

GOVERNMENT PROPERTIES

Government properties though not in the same class constitute another block of properties from which the tax realisation is frozen. The difference between these on the one hand and rent oontrolled premises on the other is that in this case there is no environmental decline though their rateable value and the tax realisation thereon is static. Government buildings belong to two categories ; those used for administrative purposes and those used to provide residences for government employees. Current practice is to levy either a service charge on all government owned buildings irrespective of the use to which they are put or to assess residential buildings on the basis of the actual rents realised from them. It is well known that these rents are very low compared to prevailing market rents ; not only this, these rents are frozen just as in the case of rent controlled premises. While the concept of a service charge on government buildings used for administrative purposes may be justified, the same cannot be said of government residential buildings. These should be rightly assessed at prevailing market rentals or values to contribute their due share to the city's revenues.

COLLECTION AND TAX EROSION

In addition to the erosion of the tax base, referred to in the foregoing, frailties in the procedures of assessment and collection of the tax give rise to continuing under recoveries year after year. In some cases the accumulated arrears in tax realisation are a little more than the current year's demand. Streamlining of the collection procedures and introduction of automatic data processing machinery would go a long way towards

[6] *Interim Report of the Commission of Inquiry into the Finances of the Municipal Corporation of Delhi and the New Delhi Municipal Committee*, August 1968, p. 108.

presentation of bills on time. In some cities, a system of a rebate for prompt payment of tax dues and a penalty for delays in payment is in vogue ; the system is reported to have yielded satisfactory results.

The discussion so far has been mainly on factors contributing to the erosion of the tax base. Earlier, it was mentioned that as the city grows, its financial requirements increase and there is a consequent need to enlarge its property tax base. This can be achieved by fostering a continuous building activity at a pace sufficient to house the increase in population from time to time.

HOUSING BACKLOG

Current experience in India has been that the pace of house building has not been rapid enough to meet the increasing population. Not only that, whatever is built appears to go to meet demand of the high income families. This is so because it is only these sections that can afford to pay rentals high enough to attract the investment required to provide accommodation. The economically weaker sections of the community unable to pay rentals that can attract continuing investment live in progressively deteriorating housing and environmental conditions. This is a situation not peculiar to India ; other countries, even the more affluent ones, face the same problem. In these countries various measures have been tried out, one of which was reducing the tax burden on new property. However the overall experience has been that no single policy measure yielded the desired increments in accommodation ; each measure made only a small impact on the problem. According to Netzer[7]: "the single most effective strategy for improving the housing conditions of the central city poor is to rapidly expand the total supply of housing, even if little of the new housing is for the poor. Among American urban areas, the greatest housing improvements for the poor have occurred not where the increase in the stock of low-rent public honsing has been greatest, but where the total supply has increased the most".

This is not incomprehensible. Let us for example take the case of Delhi. It is widely felt that while large numbers of houses have come up for the upper income group there has been practically no private investment in housing for the low income groups. Concerned with this the government has stepped in and built houses for the low income group; yet the backlog in low income housing demand is so high that there are some who feel what measures would have to be taken to divert private investment from upper income housing to low and middle income housing. Would such a measure really provide housing for low income families?

[7]D. Netzer, *Economics and Urban Problems : Diagnoses and Prescriptions*, New York, Basic Books, 1970, p. 102.

The demand for housing is universal to all income groups, be they low or high. Given this, if sufficient new housing for the more affluent sections of the community is not available, they certainly are not going to be without a roof over their heads. They have the wherewithal to pay for it and do not hesitate to do so. The result is they move into middle income units for which the rents soar. The middle income families being pushed out of their 'rightful' accommodation by soaring rents, in turn, either occupy one room 'barsatis' with improvised amenities or more into low income houses since they can afford to pay more than the low income families. Ultimately the result is the same, the poor man has no roof over his head. This is exactly what has happened in the last few years in Delhi. Enough housing did not come up for any section of the community. As the demand increased rents have almost doubled. Middle income housing which fetched around Rs. 200 to 250 a month has now been taken over by the upper income group at monthly rentals of Rs. 500 to 600. The middle income has shifted from two and three-room apartments to single room 'barsatis' with poor amenities or move to low income areas. It is apparent, therefore, that if the low income families are to be housed properly, it can only be achieved where the total supply of housing for all sections of the community has expanded rapidly.

PROMOTING HOUSING TO EXPAND TAX-BASE

Therefore any policy measure that is contemplated must be such as to increase the total housing at a rapid pace. Concessions in property tax have worked well in some of the European countries after the large scale depredations of the last war. There is no reason why the same should not be tried out in India. At present such a concession is given only to those who occupy their own premises. What is needed is a concession to those who build for renting the premises so as to increase the returns on such investment which has progressively declined with rising costs of land, building materials as well as wages. Such concessions are generally given for a specified number of years in a graded fashion. If necessary this period could be longer where the accommodation is built for the weaker sections of the community.

Such tax concessions or incentives are not any different from the discounts offered for prompt payment of tax dues referred to earlier while discussing the erosion of the tax base. More than this, tax concessions which act as an incentive to rapid building can be rightly held to be a promotional measure on the part of the civic authority to expand its property tax base.

HIGHER TAX ON LAND VALUES

It is in context of promoting more building investment and thereby expanding the tax base that a preference has been shown in some countries for a tax based on land value rather than one leaning heavily on the building. A switch to heavy taxes on land and light taxes on building is likely to remove the disincentive to invest in buildings. It is held that land owners would be encouraged to develop sites more intensively to secure a flow of income from which to pay the land value tax. It penalises those who keep urban land vacant. It would encourage development most in central sections of the city where older and smaller buildings now stand and where rent control usually prevails and on the urban (rural) fringe where land owners would be less likely to hold out for future speculative gains. Insofar as the increase in land value has been the result of public investment in facilities and utilities, community development and population growth, and not due to any effort on the part of the owner, it is only proper that the community reaps the benefit from the periodical increase in the value of land.

The working of such a system of taxation based on land values in Australia, New Zealand, Jamaica, the city of Pittsburg in USA and Hawaii has been reviewed by Nanjundaiya[8], according to which "administratively, it is easier to estimate the capital value of land separately than the total value of the land and building taken together". In Pittsburg and Hawaii a system of heavier tax on land and a lighter tax on buildings was introduced. Such a graded taxation measure combines the advantages of a site-value tax while at the same time the cost of the civic services necessary to meet the increased building activity as a result of the site-value tax is met by a relatively lower level tax on buildings. Insofar as this 'graded tax' was introduced in Pittsburg as early as 1913, an evaluation on its working in that city would be more meaningful. Proponents of the graded tax have attributed to this measure the urban renewal that has taken place there, since then. On the other hand, there are those who claim that by and large the transformation of the city was due to its Urban Redevelopment Authority having compulsory powers of acquisition of land for redevelopment according to a well defined 'city plan'. Commenting on this issue Nanjundaiya states[9] as follows :

1. The main weakness of the graded tax as adopted in Pittsburg is that the differential between the tax on land buildings was insufficient.

[8]B. Nanjundaiya, *Taxation of Urban Land and Buildings*, New Delhi, Planning Commission, Perspective Planning Division, December 1970, p. 8.

[9]*Ibid*, pp. 19-20.

2. The credit for urban renewal in Pittsburg should go to a large measure to its Urban Redevelopment Authority.
3. It is debatable whether even a complete site-value tax with no tax at all on buildings would have achieved the desired urban renewal.
4. Yet, the graded tax despite its inadequacy has helped in keeping land values at relatively low levels.

In this connection it may be pointed out that the common assumption that a few policy instruments can solve the problem of urban renewal is not true, each measure has only a small impact on this complex problem. Therefore, a large number of diverse approaches all acting together are necessary for such renewals. That even a graded tax with an inadequate differential between the taxes on land and buildings was able to make land available for redevelopment at relatively low prices is a positive aspect of such a policy measure ; since low land prices contribute substantially to an accelerated pace of house building and home ownership, this positive aspect of a graded tax system assumes greater importance.

CONCLUSION

To conclude, property tax constitutes the most important revenue source to a growing city. However certain aspects like central-city decline or rent control, undervaluation of properties and delays in tax recovery continually eat into the tax base. Besides the necessity to neutralise these, the city being constantly required to provide more and more civic amenities and services, must also strive to expand its property tax base. This may be achieved by providing tax concessions on new buildings in the existing rental value base assessment system or alternately through a heavy tax on land value and a light tax on building. Only a rapid pace of building activity would neutralise the erosion caused by central city decline and rent control. □

Uniformity in the Valuation of Properties

Y. RAMASWAMY NAIDU

IN THIS paper an attempt is made to examine a specific aspect of municipal property tax, *viz.*, uniformity in the valuation of properties. The information and data were collected through case studies of six municipalities in Andhra Pradesh and the Corporation of Hyderabad. Of the six municipalities studied, four are from Andhra and the other two are from Telangana, the two major segments of the state drawn from the now defunct Madras and Hyderabad states respectively. The Hyderabad Corporation was governed mostly on the lines of municipal councils in Telangana. The administration of property tax differed in the two regions; hence a distinction is maintained in the study of the councils in the two regions. The study is confined to the period 1952-62; for the year 1952 was the basic year for the state of Andhra Pradesh, and after 1962 valuation of properties was not undertaken in the councils in the state owing to the ushering in of the 1965 Act, which aims to integrate the laws in both the regions.

The study is divided into four parts. In Part I, the method of assessment of properties prior to 1965 is discussed. In Part II the working of the method until 1965 is presented. In Part III the changes introduced in the 1965 Act are discussed. Part IV forms the concluding section.

BASIS OF ASSESSMENT

Following the British practice, municipal councils and the corporation in this state, like those in other states adopted except in case of vacant lands, annual value as the basis of assessment as is shown in Table 1.

In case of buildings, whose annual value in the opinion of the assessing authority, cannot ordinarily be assessed, assessments may however, be made on their capital value. Of the capital value assessed, 6 per cent in Andhra and 5 per cent in Telangana was to be taken as the annual value for determining the tax. This method was generally followed in assessing

the values of the properties of the central and the state governments, hostels, factories, mills, educational institutions, etc.

TABLE 1 BASIS OF ASSESSMENT

Nature of property	*Municipal Councils*		*Corporations*	
	Andhra	*Telangana*	*Andhra*	*Telangana*
1. Buildings	Annual or rental value	Annual letting value	No corporation	Rateable value
2. Vacant lands	Capital value or extent	Annual	,,	,,
3. Agricultural lands	Annual value or extent	No tax	,,	,,

Where buildings were assessed on their annual value, the assessing authority was bound to determine the rental value or the rateable value of the land and the building thereon separately. In determining the annual value or rateable value, no hard and fast rules were laid down. However, while the valuing authority was at liberty to determine the annual value of the building either on the basis of expected rent or fair rent or reasonable rent, he was under no obligation to accept rent actually paid as reasonable rent. In determining reasonable rent, the assessing authority was, of course, expected to take into account facts like rent, if any, actually paid for the building under valuation and for similar buildings in the vicinity, the plinth area of the house, nature of walls, roofing and flooring number of rooms in the house, hygienic condition of the locality, location of the building, and fittings and facilities provided in the building. In practice, often rent actually paid used to be taken as the basis of annual value; since assessing the reasonable or fair rent requires much effort on the part of the assessing authority. If capital value basis is adopted, the assessing authority has to ascertain separately the market value of land and cost of construction of the building, etc.

Assessing and Revising Authority

In the Andhra region, the executive authority, namely, the municipal commissioners, were the assessing authority. Owing to the heavy responsibilities placed on them, they were not in a position to bestow proper

attention to general revision of properties due once in every five years. The State Government used to depute officials, mostly drawn from the revenue and a few other departments, for a specific period, to conduct general revisions and hand over the assessment lists to the commissioners concerned for implementation. These officers called as revision officers, however, had no special training whatsoever in the revision work and in general it was said that the assessment of properties by these officers was defective.

To remedy these evils, following the recommendations of the Local Finance Inquiry Committee, the Government of Andhra Pradesh created a Valuation Department in 1956 under the control of the Director of Municipal Administration which was manned by valuation officers drawn from grade II and grade III municipal commissioners. The then Director of Municipal Administration claimed the following advantages in favour of this arrangement.

First, the valuation officer and their chief were recruited from experienced municipal commissioners and they, unlike the commissioners and the revision officers, were given short but intensive training in valuation work under the supervision of the Director of Municipal Administration. Secondly, the valuation officers have the opportunity to specialise in their work, for, they were continuously engaged in this work in different municipalities in the state. This was not the case with the commissioners and the revision officers, as the former were busy with their day to day administration and the latter had no stakes in municipal administration as such. Thirdly, the complaint, often voiced, that the commmissioners were not in a position to do justice to the tax payers because they were unduly influenced by the councillors and local officers might not be made against the valuation officers.

In the Telangana region, right from the beginning the assessment of properties was vested in the municipal councils themselves and they used to delegate their power of assessment either to the president of the council or to a sub-committee constituted by them. After the creation of the department, on the advice of the Director of Municipal Administration, many of the councils opted to utilise the service of the valuation officers.

Appellate Authority

Against the decisions of the assessing authority, the rate payers enjoyed the right of appeal. In both the regions, the first appellate authority was the assessing authority itself. In Andhra, while the decision of the council was final, in Telangana further appeals were allowed to higher authorities and courts of law also. However, the State Government in Andhra had the power not only to reverse some or all the decisions of the appellate authority, but also to revoke the appellate authority of the council itself and invest this power in special officer appointed for this purpose. In

Telangana this practice was not observed.

WORKING OF THE METHODS UNTIL 1965

In this section an attempt has been made to assess the actual woking of the method on the lines discussed above.

Vijayawada

During the selected period, 1952-62, in Vijayawada, the first general revision was held in 1952. Against the assessments made in this revision, as many as 6,000 revision petitions were preferred to the Taxation and Appeal Committee of the Council. The Committee, on a majority of appeals preferred to it, ordered reductions ranging from about 25 per cent to 98.5 per cent of the amounts appealed against. In some cases, the reductions ordered were more than what was asked for. A few typical examples of reductions granted by the Committee are mentioned in Table 2.

TABLE 2 HALF YEARLY ASSESSMENT

(*In Rupees*)

Sl. No.	*Assessment No.*	*Nature of occupation*	*Fixed by the*			*% of reduction on appeal order by the*	
			Revision officer	*Commissioner*	*Appeal Committee*	*Commissioner*	*Appeal committee*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	15,951	Let out	394	359	240	5.7	39.0
2.	2,750	,,	145	131	88	7.0	33.0
3.	8,760	,,	2,275	2,159	1,787	4.3	17.2
4.	9,178	Fuel Depot	212	212	170	—	19.7
5.	15,968	Let out	370	335	239	6.5	28.6
6.	11,013	,,	343	171	24	50.0	87.5
7.	N.A.	Vacant land	48,040	33,800	13,310	30.0	72.5
8.	10,030	,,	19,730	19,730	300	—	98.5

Consequent of such reductions ordered by the Committee, the Council sustained losses around Rs. 0.50 lakhs per year.

The next general revision was held in 1957. This time the revision was conducted by the newly created Valuation Department. In this revision, out of 20,951 properties assessed, annual values were enhanced on 11,571. Against them 8,880 revision petitions were preferred to the committee. Of the revision petitions preferred, the Committee disposed of 5,000 petitions and granted reduction on them ranging up to 70 per cent of the amounts appealed against. The overall reductions so granted amounted to Rs. 1.50 lakhs per year. Still 3,880 petitions were pending disposal. In the meanwhile the Council was dissolved and further reductions were stopped.

Kurnool

In the period 1952-62, two general revisions were conducted in the Kurnool Municipality, the first in 1954 and the second in 1959. Against the 1954 revision 1,829 revision petitions were preferred to the committee. Of them, reductions were ordered on 1,456 petitions. A few of the typical reductions are shown in Table 3.

TABLE 3 ANNUAL VALUE

(*In Rupees*)

House No.	*Fixed by the*		*% of reduction ordered by the appeal committee*
	Revision Officer	*Appeal Committee*	
(1)	(2)	(3)	(4)
9/320	1,344	1,008	25.0
11/224	180	120	33.3
13/43-B	1,120	560	50.1
11/208	360	120	66.7
13/13	96	24	75.2

The range of reductions ordered against the 1959 revision was still higher. Here are a few typical examples.

House No.	*Tax fixed (in Rs.)*		*Reduction ordered (in Rs.) by the*		*Percentage of*	
	Before Revision	*After Revision*	*Revision Officer*	*Appeal Committee*	*Col. 4 to Col. 3*	*Col. 5 to Col. 3*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
17/120	—	29.57	27.85	15.41	5.9	27
8/127	19.28	29.60	29.60	18.49	—	30
17/30 & 39	17.67	172.50	172.50	80.49	—	50
1/4 F	22.17	63.81	62.81	24.13	1.5	63
1/144 A.F.	—	48.28	48·28	—	—	100

As a consequence of such reductions the Council, during the years 1956-62, lost the tax on rental value worth Rs. 50,000 per year.

Srikakulam

Typical examples of tax reductions granted by the Srikakulam Municipal Council against the assessments made by the Valuation Officers in the general revisions 1956 and 1961 are noted below :

Sl. No.	1956 Revision				1961 Revision			
	Assessment No.	Tax (in Rs.)		% of Reduction	Assessment No.	Tax (in Rs.)		% of Reduction
		Before reduction	After reduction			Before reduction	After reduction	
1.	1,270	25	6	76	2,766	553	433	23
2.	544	100	50	50	1,824	198	133	30
3.	1,430	50	25	50	1,063	42	22	47
4.	932	25	12	52	834	50	22	53
5.	1,211	75	50	33	1,853	120	27	78

Tirupati

Though the range of reductions was not so high in Tirupati Municipality, it was, however, no exception to the general practice of ordering reductions on a large number of appeals by the Council. As few typical examples of such reductions ordered are shown below :

Sl. No.	Tax Fixed by the Revision Officer				Tax Fixed by the Committee on Appeal	% of Reductions Ordered
	Tax Before Revision	During	On appeal	% of Reduction ordered		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	42·50	205·83	160·71	21·9	115·80	28·1
2.	38·58	109·34	96·48	11·9	60·44	37·5
3.	36·02	57·85	45·02	22·4	38·58	13·3
4.	36·20	51·43	51·43	—	36·20	29·4
5.	32·58	51·44	51·43	1·8	23·14	54·9
6.	32·15	96·48	85·72	10·4	39·82	53·5
7.	29·98	77·18	77·18	—	51·42	33·8
8.	20·55	38·58	38·58	—	20·55	46·2

It may be observed that while the revision officer ordered reductions from about 2 per cent to 22 per cent, the Committee, on appeal, ordered further reductions ranging from 13 per cent to 55 per cent. It is interesting to note that in 2 cases, the tax was reduced by the committee to the pre-revision level and in one case the reduction was less than the amount determined at the previous revision.

Warangal and Nizamabad

In both these councils, selected from Telangana area, neither the general revision of the values of properties mandatory once in five years, nor the assessment of new properties constructed, were undertaken ever since 1952, the year in which the Councils were reconstituted. The 1952 assessment, were mere adoptions of the assessments made in 1942. In other words, the tax was not revised ever since 1942. It was brought to light that the unassessed houses were more than the assessed houses in these towns. The general revision undertaken by the Valuation Department in Warangal in 1962 revealed that the council was not realising even half of the revenue that it could have possibly realised, had the Council cared to do so. It was clear from the fact that annual demand settled by the valuation officers in 1962 was Rs. 19.68 lakhs as against a demand of Rs. 8.58 lakhs which was in force at the time of the revision.

Hyderabad Corporation

The position regarding the valuation of properties in the Hyderabad Corporation was no better. Quinquennial revisions were not all undertaken for a very long time. It was only in 1959 that some sort of general revision was taken up in the Hyderabad division.* Even this was not done in the Secunderabad division. An interesting feature in this regard was that the range of assessment of properties, in both the wings of the Corporation, was far lower than the range of assessment made in small municipal towns in the State.

Thus, the six case studies reveal that no valuation of properties whatsoever was undertaken in the municipal areas under reference. Their tax administration was so primitive that it would be meaningless to say anything regarding uniformity of valuation in them. Available data show that what was true of the selected councils in Telangana was true of almost all the Councils in that region.

The administration of the tax in the four municipalities studied in Andhra reveals that there was a great deal of variation in the assessment of properties. In all the four cases studied, revision petitions were

*Prior to 1959 there were two Corporations in the State, *viz.*, the Hyderabad Corporation and the Secunderabad Corporation. In 1959 the latter was merged with the former. For the sake of convenience and for the maintenance of accounts the two Corporations are treated as separate wings of the enlarged Corporation.

preferred in unduly large number to the Councils and the Councils seemed to have allowed indiscriminate reduction of the values assessed. Reductions ordered often ranged from 25 per cent to 100 per cent of the amounts appealed against. In some cases, reductions granted were far more than what was asked for.

The contention of the State Government was that the number of petitions on which and the rate at which the reductions were ordered by the Councils were very high. Also, the means adopted and the motive involved in them were quite contrary to law and the established code of conduct. The Councils were acting under extraneous motive like vote catching tactics and helping the followers of the councillors, etc., in complete disregard of the financial interests of the Councils. Reductions ordered were highly arbitrary, discriminating and were not supported by facts and figures. No pains were taken either to visit the properties or to make enquiries regarding them, before ordering reductions. The Councils were undoing what was done by the valuation officers. This led often to revoke the appellate powers of the councils and some times even paved the way for their dissolution also.

The Councils on their part argued that they were convinced that the rental values determined by the Valuation Officers in the general revisions were unduly high and they were only scaling them down in deserving cases. They also seem to feel that the Valuation Officers are alien to the town who have neither first hand knowledge of property values nor any idea about the means and needs of the property owners. The Councils were of the opinion that the newly created Valuation Department and its officers were too anxious to justify the retention of the new department and prove the superiority of their work over the previous mode of assessment by showing increasing revenue to the Councils.

CHANGES IN THE 1965 ACT

In the 1965 Act, which seeks to integrate the laws governing the municipalities in both the regions, Andhra and Telangana, the State Government introduced some noteworthy changes in regard to valuation of properties.

In the old Acts, no distinction was made between the owner-occupied and the rented buildings. All the buildings were to be assessed on their annual value. In the new Act while the buildingsl et out will continue to be assessed on their annual value, as pointed out earlier, the owner-occupied buildings will be assessed on their capital value. Those buildings which are partly occupied by the owner and partly let out are to be assessed by adopting both the methods. That part of the building occupied by the owner is to be assessed on its capital value and the other parts let out are to be assessed on their annual rental value. Yet a feature

of the Act is that the method of assessment of private properties was extended to the valuation of government properties also.

The Act leaves wide discretionary powers in the hands of the Valuation Officers in determining annual value of the buildings let out and it lays down a number of norms and restrictions on the valuation officers in determining the capital value of the owner-occupied lands and buildings. The capital value of the building used or occupied by the owner shall be the total of the estimated value of the building, including the land appurtenant to the building, arrived at after detailed valuation with reference to the prevailing market rates for different materials used. In calculating the capital value depreciation may be allowed depending on the condition and age of the buildings as is shown below in the Table.

In addition, a rebate varying from 10 paise to Rs. 10 was also allowed based on the range of the tax.

For the purpose of estimating the cost of erection of buildings used or occupied by the owners, buildings may be classified into the following categories :

Life of the building				*Maximum depreciation allowed*
Below	2 years			*Nil*
Above	2 years	and below	5 years	5%
,,	5 ,,	,,	10 ,,	10%
,,	10 ,,	,,	15 ,,	15%
,,	15 ,,	,,	25 ,,	25%
,,	25 ,,	,,	35 ,,	30%
,,	35 ,,	,,	50 ,,	40%
,,	50 ,,	,,		50%

Sl. No.	*Classification of Buildings*	*Rate of cost per sq. metre of plinth area (Rs.)*
(1)	(2)	(3)
1.	*Buildings with Mud Walls*	
	Roofing with	
	(*a*) Grass, leaves read with bamboos	28.05
	(*b*) Tiles, shingles, slates	46.75
	(*c*) Metals, A.C. sheets	56.10
2.	*Brick walls in mud*	
	Roofing with	
	(*a*) Grass, leaves read with bamboos	46.75
	(*b*) Tiles, shingles, slates	65.45
	(*c*) G.I. or (metal) or A.C.	74.80

(*Continued on next page*)

(*Continued*)

(1)	(2)	(3)
3.	*Brick walls in lime or in cement*	
	Roofing with	
	(*a*) Tiles, slates. shingles	76.50—93.50
	(*b*) G.I. or (Metal) or A.C.	93.50—110.50
	(*c*) C.C. stone slabs	127.50—153.00
	(*d*) Brick in lime	127.50—153.00
4.	*Metal sheet walls*	
	Roofing with	
	Metal A.C. sheets	85.00— 93.50
5.	*Stone wall in mud*	
	Roofing with	
	(*a*) Metal A.C. Sheets	85.00
	(*b*) Brick and lime	119.00
	(*c*) C.C. and stone slabs	119.00
6.	*Stone walls in lime and cement mortar*	
	(*a*) Metal A.C. sheets	93.50 to 110.50
	(*b*) Brick and lime	136.60 to 161.50
	(*c*) C.C. and stone slabs	153.00 to 170.00
7.	*Steel frame structures*	
	Roofing with	
	(*a*) Metal A.C. sheets	95.50
	(*b*) C.C. and stone slabs	131.75
8.	*R.C.C. frame structures*	
	(*a*) Ground floor	204.00—221.00
	(*b*) First floor	170.00—187.00
	(*c*) Second floor	170.00—187.00
	(*d*) Third floor	178.00—195.00
	(*e*) Fourth floor	187.00—204.00
	(*f*) Fifth floor	195.50—212.50

Where varying rates are provided, the Councils, depending on local conditions, may adopt rates found suitable to them. The Secretary may also increase the rates determined by the Councils by not more than 10 per cent, if, in his opinion, considering the nature and type of the building such an increase is necessary. The government may vary rates once in 5 years or even at shorter intervals so as to keep in line with the changing rates.

In determining the value of the building the Valuation Officer has to

obtain a certificate regarding the classification of the building from the engineering staff of the Council. For the purpose of determining the age of the building, the Valuation Officer may rely on the documentary evidence where available and produced for verification. In the absence of such an evidence the Valuation Officers have to obtain a certificate regarding the age of the building from the municipal engineering staff.

In the old Acts vacant lands, owner-occupied or let out, were assessed on their capital value or extent. In the new Act, as in the case of buildings, a distinction is made between the owner-occupied (other than railways) and the let out lands. While the lands occupied by the owner are to be assessed on their capital value, those let out are to be assessed on their annual value. Here, the rules required the Valuation Officer to ascertain capital value of the land, which is its prevailing market value, the market value being the reasonable price that it may secure if it is sold in the open market, having regard to its situation, present condition and value as a prospective site for house construction or for the location of mills, factories or other industrial or commercial concerns. He is also expected to have due regard to : (1) the price paid for the land or for any portion thereof in the current year and in case it is not ascertainable, the average price, prevailing in the three years immediately preceding, after making due allowance for the lapse of time and difference in respect of the situation of the land or of the amenities in the neighbourhood. He may also obtain through the Secretary of the Council, particulars regarding all lands in the municipality, which were valued by the Registration Department in the current year and in the three years immediately preceding in connection with the acquisition of lands for public purposes or for assignment or sale of house sites belonging to the government and the rate of capital value adopted in case of each such land and may take such rates as a general guide in making valuation of lands near the lands to which the rates relate. The Secretary may also obtain from the District Registrar or Sub-Registrar, as may be the case, particulars of the transfer of property for sale in the preceding quarter and provide such information to the valuation officers for determining the value of the land. (2) Only two per cent of the capital value of the land so determined should be taken as the tax of the land.

CONCLUSIONS

The innovation in the 1965 Act is that the owner-occupied lands and buildings should be assessed on the basis of their capital value. The *modus operandi*, suggested in the rules regarding the determination of capital value itself indicates the very nature of difficulties that are involved in the system. The Valuation Officers have to depend on the engineering staff for the classification of the buildings and the determination of

their age. Where recorded evidence is produced the engineering staff are expected to accept them. In most cases, however, owners may not have documentary evidence regarding the cost of construction and the age of the buildings. In the absence of such evidence the engineering staff have to take pains in determining the cost of construction of the buildings a difficult task indeed. Consequently, the issue of certificates may become a matter of course. The objection raised against the municipal commissioners and Revision Officers who were formerly incharge of valuation, will almost apply to the municipal engineering staff also. All this may lead to disuniformity rather than uniformity in the valuation of properties and there is no guarantee that the Councils will improve their tax revenue by this method.

Yet, a difficulty to be noted is that the capital value of the buildings arrived at on the basis of the norms provided by the government may not be equal to the market value of the buildings which has a tendency to fluctuate.

It becomes difficult to argue that capital value will secure tax justice to the owners occupying their own houses. For, those who live in huge houses, constructed by their fore-fathers may have very little income and those who live in small houses may have larger incomes. The value of the house occupied by a owner may not be a correct indicative of the owner's capacity to pay the tax. Low and middle income groups in the urban areas often invest the whole of their life earning in the construction of a house as a security and savings and or for the sentimental satisfaction of owning a house. If the tax, on these buildings, is imposed on the correct assessment of the capital value it may fall heavily on their owners and curb incentives for owning houses.

The most anomalous part of the rules made in the new Act relates to the valuation of lands and buildings which are partly occupied by the owners and partly let out for rent. It will be highly difficult for the valuation officers to make a correct assessment of such properties. Normally, accurate information regarding the portion that are exactly let out and those that are occupied by the owners may not be available or produced.

Making rent actually paid as the basis for rented houses also may not lead to uniformity in assessment. For, it was often alleged that neither the owner nor the tenant reveal the rent actually paid. In view of the acute shortage of housing accommodation in the urban areas, in most cases the tenant may not like to reveal the rent which he actually pays, lest he may either be evicted or he may not secure accommodation elsewhere. Normally, a majority of the houses in the towns are let out and they account for the major portion of the tax revenue. When such a large number of houses are assessed on their annual value which is equal to the rent actually paid, it is not clear why a minority of the houses

occupied by the tenants should be subjected to rigorous and meticulous valuations and calculations. The valuers who are trusted to determine the fair rent of the let out houses, may also determine the fair rent of the owner occupied houses.

It may be argued that the Valuation Officers at present are expected to take, as far as possible, rent actually paid as the basis of assessment. As has already been pointed out this is what is exactly happening at present and it is this factor that is responsible for the low yield of the tax. If the valuation machinery is improved, yield from property tax, from this section of the houses, *viz.*, the rented houses, may increase considerably.

Thus, it is evident that the method introduced in the new Act may not secure uniformity in valuation. No doubt, adoption of capital valuation may be a better criterion, if the defects and difficulties involved in this method are eliminated. Non-availability of proper machinery, lack of staunch opposition from the public are bound to defeat the very purpose of this method, if hastened Again, the valuation department, created in Andhra, is not manned by technically qualified persons. Without a change in this machinery, if capital valuation is adopted, the method is bound to suffer seriously in their hands.

Yet a point to be noted is that the valuation of properties in the town is carried by a number of Valuation Officers, the number depending upon the size of town. Each Valuation Officer is allotted a few wards. Each Valuation Officer uses his own yardstick in the determination of the value of properties and thus not only that valuation become one man's business but also different yardsticks are allowed to be used in the determination of property values in one and the same town under similar circumstances.

The solution to these evils lie not in the changing over from aunual to capital valuation of properties but in changing the very machinery of valuation. It is better to entrust the job of valuation to a group of technical persons, the group advisably consisting of engineers, town planners, one or two local representatives and experts in local taxation or administration. On this basis, the Valuation Committee may consist of the following personnel :

1. Municipal engineer of the council;
2. Revenue divisional officer of the area;
3. Town planning officer of the council;
4. Chairman of the council;
5. Secretary of the council;
6. An expert in local taxation or local administration; and
7. A local representative (either a councillor or a co-opted person or the representative of the Government).

Each property should be assessed by the Committee by actually visiting the property. As this Committee consists of a group of experts representing all interests, it is likely to take a judicious view of the value of each property assessed. In view of this, there is no need to vest the appellate authority in the Council as is the case at present. If appellate power is continued to be vested in the Council, the suggested Committee will serve no useful purpose and the position may not improve much. □

Property Tax Assessment Problems in the United States and India : Some Contrasts and Comparisons*

LARRY SCHROEDER

WHILE THERE are differences in the structure of the property tax in the United States and India, municipalities in the two countries face many of the same problems in the application, administration and collection of the tax. The current paper is a compilation of the major issues associated with the local property tax in both countries with an emphasis on the commonality of the problems faced in each. By noting how at least some of these problems have been attacked, improvement in the administration of the tax may be possible.[1]

We begin by reviewing the differences in the tax base in the United States and India. While the definitions of the base differ, the assessment of these respective bases involve many similar difficulties. Section II considers several normative criteria by which the administration of a tax can be judged. Section III then addresses the major issues associated with the tax in both India and the United States *vis-a-vis* those critera. A brief summary concludes the paper.

TAX BASE DEFINITIONS

The most obvious difference in the United States and Indian property tax is the use of a capital value base in the former and annual rental

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[1]Throughout the discussion it must be kept in mind that generalisations about either the United States or India, both of which are extremely diverse, economically and institutionally, are subject to many exceptions.

value in the latter. That is, the legal base of the tax in the United States is the market value of the property, *i.e.*, a tax rate is applied to a measure of the *stock* of capital. In India the *flow* of rental income from the stock is the tax base.

There is a difference in the definition of what is included in the tax base. In India only buildings and land are taxed whereas in the United States, equipment and, in some states, inventories and other personal property are a part of the base. This provides a broader tax base in the United States (and, as noted below, could introduce particular undesirable incentives into the Indian system).

In India the rates of taxation in major cities range from 20-50 per cent of the annual rental income. If a reasonable rate of return on capital is on the order of 10-12 per cent per annum, this would amount to a tax of from 2 per cent to 6 per cent of the capitalised value of the Indian properties. Interestingly, effective tax rates in major American cities are in this same range. Thus, if the administration of the tax is nearly the same in the two countries, the tax burdens are not greatly dissimilar.[2]

Determination of the tax base in each country relies upon the efforts of assessors who have the task of evaluating the tax base for each parcel on the tax roll. There are many similarities in the approaches taken by assessors in the two countries in determining these bases. The primary approaches are: (1) direct observation of sales or rent, (2) comparable property methods, and (3) less direct methods that rely on the cost of the property and/or the return from the property and that must be applied when there is no turnover or letting of the property. We consider each in turn.

Direct Observation

The simplest approach to the valuation of the tax base is to observe it directly. The selling price of a property sold in the United States *could* then become the basis of the tax.[3] Likewise, in India such an approach

[2]It should be noted that, within the context of the entire Federal-state-local tax system in the United States, effective property tax rates are somewhat lower than stated since both Federal and most state, income tax regulations allow property owners to deduct from their gross income property taxes paid to local governments. Similar provisions are not available in India.

[3]'Could' is emphasised since, as is noted below, most municipalities in the United States do not assess properties at their full market value even when they are observed directly. It should also be noted that only 19 of the 50 states legally require that taxable values equal market values. The remainder utilize some form of fractional assessment. But even in full market value states assessments are often below market values. In 1976, the overall average ratio of assessed to market values was approximately 30 per cent of market values based on samples of actual sales. See United States Bureau of the Census, *1977 Census of Governments*, Volume 2, "Taxable Property Values and Assessment/Sales Price Ratios", Washingtion, D.C., U.S., Government Printing Office, 1978, p. 60.

could rely on observation of the rent received by the owner of a rental ('let') property. Given the predominance of such rented property in India especially residential property, it is this direct approach which is most heavily relied upon there. Since turnover of property in the United States is not especially great, the direct approach to assessment is less important there.

The key to the direct assessment method (indeed, to *any* method) is accurate information. In the United States there is reliance upon real property transfer records, which are reasonably accurate. In India it is necessary to obtain information on the rental transaction. Apparently this is a cause of one problem in the system since owner and tenant may conspire to mislead the assessor by understating such rents. The assessor can, however, utilize his discretion and knowledge of the market to overrule the tenant and landlord.

Comparison of Properties

Since many properties are not sold during any one year in the United States and since some properties are not let in India, the comparative method of assessment is used in both countries. This means that in the United States, the assessor must use his judgement concerning those attributes of properties that are important in determining market values and then match properties on the basis of such attributes. The prices of properties that did turn over (were sold) can then be used as proxies for those not sold. Among the commonly used attributes in such a process are building material, floor space, lot size and location.[4]

Similar property attributes are used in India when the comparable property method is used. For owner-occupied housing and certain commercial property it is not possible to observe directly the rental value. Thus, as in the United States, the assessors consider these attributes then compare the rental value of properties actually let with those owner-occupied to determine an annual value for the latter.

Once again accurate information is at the heart of this method (as well as good judgment on the part of the assessor). If property characteristics are incorrect or if the directly-observed value data are wrong, inaccuracies in assessment are likely to occur.

Cost or Net Return Methods

In both the United States and India it is sometimes impossible to use

[4]These property descriptors are used as the basis for some computerized assessment in the United States since the computer can very efficiently match up properties with similar characteristics. Similar approaches could possibly be used in India. For an extremely thorough, and usable guide to assessment of property values, see International Association of Assessing Officers, *Improving Real Property Assessment—A Reference Manual*, Washington, D.C., 1978.

either of the first two methods of assessment. That is, some properties are almost never sold or let nor do they have attributes in common with those that do turn over or are rented. Examples of such properties include utilities and many factories. In these cases, less direct methods must be applied. These methods utilise certain attributes of the market in determining values.

The functioning of a market can be described in terms of the 'rate of return' on a property. Thus, the rate of return, r, is simply the ratio of net return, R, to the market value of property, V. That is:

$$r \equiv R/V \qquad \ldots \quad (1)$$

This identity can be and is used as the basis of assessment in both the United States and India. If r_1 is seen as the normal rate of return investors could obtain in alternative opportunities and if a property is yielding approximately R_1 annual net returns, then the most an investor will bid on the property (with no purely speculative expectations) would be

$$V_1 = R_1/r_1 \qquad \ldots \quad (2)$$

Thus, in the United States if the income statement of a property suggests it yields an annual return of $1 million and 'the' rate of return in the market is assumed to be 10 per cent, then that property would have a market value of $10 million which can be used as the basis of assessment.

A second approach used in both the United States and India relies on the cost of replacing the property. Thus, in the United States estimates of the value of the land plus the cost of replacing the building and equipment in their current condition (that is, current replacement costs less depreciation) yields an estimate of the current worth of the property. Indian municipalities use this method together with another variant on equation (1). For non-let and unique properties an estimate of the value of the property, V_2, can be obtained using the cost approach as in the United States. The tax base, R_2, is then

$$R_2 = r_2 V_2 \qquad \ldots \quad (3)$$

where r_2 is the policy-determined reasonable rate of return.

These indirect methods require greater amounts of information than the first two described, yet accuracy is still of utmost importance. For the capitalised value method as applied in the United States, accurate accounting data must be available to determine R_1. Furthermore, considerable technical information concerning engineernig and construction costs is necessary to ascertain replacement costs. Finally, if current values

are to be estimated accurate depreciation data must also be available.

One short-cut to these data requirements that apparently is used in some Indian cities is to use *original* cost rather than *replacement* cost less depreciation in estimating V_2.[5] While this greatly eases the estimation process, its accuracy depends on the relative rates of depreciation and inflation of construction costs. If construction prices have increased at a rate greater (less) than the rate of depreciation in the property, the resultant assessed valuation would be lower (higher) than that obtained under the conceptually preferable replacement cost less depreciation method.

NORMATIVE CRITERIA FOR JUDGING PROPERTY TAX ASSESSMENT

Several different criteria should be considered when judging the assessment of property—efficiency, equity, revenue, administrative costs and certainty.

All taxes, save a poll or head tax, involve non-neutral effects. Thus, the tax on tangible property is likely to increase the attractiveness of holding wealth in the form of intangible property. Likewise, where only land and buildings are taxed, there may be an effect on the relative amounts of these assets used *vis-a-vis* machinery and equipment. Similarly, exemption of furniture is likely to lead to lower rental fees for the dwelling (to avoid the tax) but considerably higher rental fees placed on furnishings. While such non-neutralities are inherent in the tax structure itself, of primary interest here are economic efficiency effects built into the assessment process. To the extent one type property, *e.g.*, owner-occupied residence or vacant land, is given favourable treatment by assessors, there will be incentives in favour of this form of property built into the taxing system. Whether or not the incentives are desirable is a policy choice that should, at least, be recognised.

While these incentives may or may not be socially desirable, it is more apparent that outright inequalities in the assessment of similar properties are undesirable. Possibly nothing does more to undermine the role of the property tax in a municipal tax structure than obvious inequities in the assessment process. To find that one's neighbour, living in a similar structure, is paying considerably less in the form of property taxes not only causes dissatisfaction with the tax and those who administer it, but also may erode overall confidence in municipal government.

There are at least two different ways to view equity in taxes—according to benefits derived and ability to pay. Under the benefit principle those receiving greater benefits from the service financed by the tax ought to bear a greater burden. The case can be made that government services

[5]This method is used by the Delhi Municipal Corporation.

yield benefits in accordance with the value of the property, *e.g.*, fire protection services are more valuable to higher valued property, thus, the property tax approaches a benefit-based tax.

Ability to pay may be considered positively associated with the value of property ; thus this principle too may not be grossly violated in a well-administered property tax system. Furthermore, in many Indian municipalities progressively higher rates are levied against higher annual values. This is likely a policy based upon the ability-to-pay principle of taxation.

As the resource needs of local government increase in response to both inflationary cost pressures and demands for greater public services, the property tax should be responsive to such needs. This is especially important if this is essentially the only potential revenue source for the municipality. The tax yield (assuming away collection problems) is simply the product of the tax base and rate. Thus, on the surface, tax rates could be increased even if the assessed tax base does not grow. There are difficulties with such an approach, however. First, many states both in India and the United States have imposed maximum rates which, once reached, put a lid on tax revenues unless these upper limits are raised by higher levels of government. Second, even if the rates are less than the maximum, it is a politically unpopular decision to have them raised. (Furthermore, in the Indian federal system, rate increases often require state approval before being put into effect.) Finally, to the extent that there are inequities in the assessment process, higher rates have the effect of exacerbating differential tax burdens.

While revenue yields to the jurisdiction is an important aspect of an overall evaluation of a tax, there also must be cognizance that most revenue sources require costs to administer. Furthermore, these costs accrue to both the taxing jurisdiction itself and to the taxpayer; and both should be recognised. Administrative efficiency must be pursued and may be achieved through mechanisation of the process.[6] At the same time it must be recognised that full minimisation of internal administrative costs may conflict with the criteria mentioned above. For example, while it may be cheaper to reassess property only every several years, such assessment lags can lead to gross inequities in the tax as values of different properties change at differential rates.

It also must be recognised that compliance costs to the taxpayer are a part of the overall costs of administrating a tax. If administrative arrangements make compliance difficult, not only is it likely that yields will

[6]For a discussion of mechanisation of the property tax process in Delhi see, S.M. Goyal, "An Experiment in Mechanisation in the Property Tax Department of the Municipal Corporation of Delhi", *Nagarlok*, Vol, VIII, October-December, 1976, pp. 89-95. Published in this Volume, the International Association of Assessing Officers volume, *Improving Real Property Assessment : A Reference Manual* also provides considerable information on this aspect of property tax administration.

suffer through tax avoidance, but in addition inequities may be introduced into the system.

Finally, there must be a degree of certainty associated with administration of the tax. The tax should not be applied in a highly capricious manner such that the taxpayer does not know from period to period why or how he has been taxed nor should different taxpayers be treated dissimilarly at the whims of those administering the tax. While it may be that local regulations concerning the tax differ depending upon the state or locality, the taxpayer should be able to ascertain exactly how his tax liability was determined.

PROPERTY TAX ADMINISTRATION ISSUES IN THE LIGHT OF THESE CRITERIA

Several issues concerning preperty tax administration arise in both the United States and India. In this section we will review these issues in the light of the efficiency, equity, revenue yield, cost and certainty criteria listed in Section II and show many similarities exist between these two systems. We consider, in turn, assessment inequities, assessment of land, inefficiencies in the housing market, assessment lags, collection problems, and the role of the state in the municipal tax assessment process.

Assessment Inequities

The discretion of the assessor plays a crucial role in all property tax administration as it is currently carried out in both the United States and India. This discretion, if applied in a discriminating or arbitrary way, can lead to the most blatant inequalities, undesirable incentives and lack of growth in the base.

It has been suggested in the United States that self-assessment be used to avoid such discretion with the owner's self-declaration of market value being, in essence, an offer to sell.[7] Interestingly, India is currently allowing such an approach with respect to the Centre's wealth tax.[8] The provision has, however, not actually been put into practice since the legislation allows only the government to accept such 'offers' and no funds have been allocated for this purpose. If the provision would, in fact, become operable, coordination between localities and the centre could vastly improve assessment practices by diminishing the discretion of the assessor.

[7]This idea is discussed in Daniel M. Holland and William M. Vaughn, "An Evaluation of Self-Assessment Under a Property Tax", *The Property Tax and Its Administration*, Arthur D. Lynn, (ed.), Madison: University of Wisconsin Press, 1969, pp. 79-118.

[8]This was put into effect in 1972 after being recommended by the Wanchoo Committee in Direct Taxes Enquiry Committee Report, New Delhi, 1971.

In both India and the United States there is apparently a great deal of discretion used by assessors which results in both inequities and possibly inefficiencies in the tax. This discretion takes the form both of discretion with respect to assessments across and within types of properties. We will consider each in turn.[9]

Experience in the United States suggests that there are considerable differences in assessment practices across property types. While some states (*e.g.*, Minnesota) have legally specified such differential treatment, assessors in many other areas have taken it on themselves to assess property differentially. For example, while New York State requires all property to be assessed at its full market value, sales and appraisal data collected by the New York State Board of Equalization and Assessment indicate that assessments in New York City differed greatly across types of properties. Thus, it was found there that on average, single family residences (predominantly owner-occupied) were assessed at approximately 30 per cent of their fair market value (as observed in actual sales and several professional appraisals) while commercial properties and multifamily apartments were assessed at around 70-80 per cent of their market value. Furthermore, utility (electrical, railroads, etc.) were assessed at 100 per cent of full market value (as determined by appraisers).[10] The 1977 *Census of Governments* document cited above indicates that New York City is not alone in treating different property types in a differential manner.

Apparently, similar inter-property type discrimination on the part of assessors occurs, as well, in India. While certain states specify a particular form of favourable treatment to owner-occupiers *vis-a-vis* rental property (*e.g.*, in Uttar Pradesh) in other areas such practice is accomplished without the rule of law.[11]

As important as the differential under assessments across property types are differential assessments within a class of property. Once again,

[9]Note, it is important to distinguish between *legal* discrimination and extra-legal purely *arbitrary* discrimination by assessors themselves. While inequalities and inefficiencies may result from statutory dictates regarding assessment, if it is assumed that social choice mechanisms do work (that the statutes are the "will of the governed"), then one cannot blame the assessment process or the assessors for such inequities and inefficiencies. The concern here is only with arbitrary or capricious discrimination.

[10]See Larry Schroeder *Property Tax Equalization Rates in New York State: A Review of Their Uses and Fiscal Implications*, Occasional Paper No. 34, The Metropolitan Studies Program, The Maxwell School, Syracuse, New York, Syracuse University, January, 1979.

[11]Apparently this is true at least in Ahmedabad. See Roy Bahl, *Urban Property Taxation in Developing Countries*, Occasional Paper No. 32, Metropolitan Studies Program, The Maxwell School, (Syracuse, NY, Syracuse University, June, 1977. See also S.P. Gupta, "Reforms in Urban Property Taxes—A Case Study of Municipal Corporations in Gujarat," *Anvesak*, June 1, 1971.

in the above-cited analysis of the ratio between 1974 assessments and sales prices of properties in New York City, ratios *within* the class of single family residences ranged from 3 to 200 per cent.

Unfortunately, similar data are not available on any wide scale in India. Nevertheless there is suspicion that considerable differences exit there too. In part this may be due to under-reporting of rental values by owner and tenants with the rate of such under-reporting differing across renter-owner combinations. It also may be due to outright fraud on the part of assessors.[12] This problem can, unfortunately, be exacerbate by the use of progressive rate as is done in many Indian municipalities. That is, if an assessor finds a rental value that exceeds a lower rate cut-off points, it may be very tempting to 'negotiate' an annual value that lies somewhere below the rate bound. This then would create additional intra-class inequities in assessment.

Land Assessment

One extremely important issue with respect to urban property taxation concerns the assessment of land. As noted above, property taxation, by altering relative prices incentives and incentives and disincentives within the market. Thus, property taxation can be used to create incentives which are socially desirable. This can be especially important with respect to the assessment of land. Once again this is an issue that has been faced in both the United States and India.

Given the capital value based tax in the United States, the value of land—either vacant or being used in particular manner—should be assessable *via* the comparable sales method. Then any speculative motives for holding land vacant would show up in the market price of such properties and therefore could be taxable. The capitalisation approach to valuation, however, may break down in the case of vacant land, Assessors. observing the land to be vacant and, therefore, yielding a low *current* return may use this as evidence of low value based on current rather than potential usage thus encouraging no change in land usage.[13]

Examples of this occur in the United States where there is farm land on the fringes of growing urban areas and where there are more efficient

[12]The problems of illegal actions by assessors are often noted in evaluation of the property tax in India. This is usually attributed to the low pay such individuals obtain. This is discussed briefly in Rakesh Mohan, "Indian Thinking and Practice Concerning Urban Property Taxation and Land Policies: A Critical Review", unpublished Discussion Paper 47, Princeton, University, Woodrow Wilson School, 1974.

[13]For example, in New York City, vacant land tends to be assessed at lower ratios of full-market value than properties, on average, in the city. See Schroeder, *Property Tax Equalization Rates in New York State: A Review of Their Uses and Fiscal Implications*, *op. cit*,

uses of the land available, *e.g.*, as residential building sites. Assessors (and policy-makers) are then faced with the question of assessing such land according to its current or its 'best' use. Economic efficiency dictates the latter; however, legislators (and, possibly extra-legally, assessors) in many areas have opted for the former. Such choice is based either on equity ground of some sort, *e.g.*, that the farmer should not be 'forced' from his land, or possibly it can be argued that the positive externalities of having farmed open spaces near the urban area makes non-conversion of the land socially desirable.[14]

In India, with its expanding population and urbanisation, the vacant land problem may be even greater. Totally unused land yields no annual rental value and, apparently, in at least some Indian municipalities, is not taxed. Yet it is quite obvious that the holder of such land must be realising at least some net positive *expected* return on his land. If not, it would immediately be developed. Thus, on basis of economic efficiency such land should be taxed, possibly by applying a normal rate of return to the market price of such property [equation (3) above].

The Housing Market

A major concern in most societies is the provision of adequate housing. The United States and India are no exception. While the approaches taken have differed, both have created certain problems with respect to the property tax. (However, it appears that the magnitude of the problem in India is considerably greater than the United States.)

In India a principal housing policy has been in the form of rent controls. For those who obtain housing, this policy does allow for lower-cost housing. Yet, the inefficiencies created have undesirable effects both on overall housing availability and on the equity and revenue growth effects in the property tax. As with any effective price control mechanism in a profit-oriented economy, shortages may result. We will not dwell on these aspects of the problem; instead, we focus on the property tax implications.[15]

The current approach to property taxation in India is to use actual rents as the basis of annual value. Furthermore, in many Indian municipalities, the controlled rent is to be used as the basis of the tax for rent-

[14]Presently 41 states in the United States provide some forms of special provisions for the assessment of farm property with 27 of these states providing for some form of penalty or additional tax if the land is covered to non-farm use. See Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, Vol. II, Washington, D.C., U.S. Government Printing Office, 1977, p. 126.

[15]Various aspects of the relationships between housing and rent controls are discussed in Deva Raj, "Rent Control, Housing, and Property Taxation", *Nagarlok*, Vol. VIII, No. 3, July-September, 1976.

controlled properties.[16] This has two effects—on the equity of the tax and on its revenue growth.

With respect to either the ability to pay or benefit principles of taxation, inequities may occur under controlled rents. With no rent controls the forces of the market are likely to result in persons with similar incomes (ability to pay) living in similarly valued residences. Likewise, the benefits of at least certain property financed services, *e.g.*, fire protection, can be said to be positively related with the value (rental or capital) of the property. With rent controls, however, there is no reason to expect such correspondences since apparently rent controls are not tied to incomes. If the property tax is linked to controlled rents, the resultant tax can be in conflict with the ability to pay principal. Furthermore, the benefit norm of taxation may also be violated when rent controls are in effect. Controlled rents are not necessarily closely related to the flow of housing services derived from the structure while benefits from at least certain municipal services are likely to be so related; thus, the benefit principle may break down.

Finally, rent controls with property tax levies tied to the controlled rents have obvious revenue implications. If rents are not allowed to rise with general increases in overall costs of producing public expenditures, then revenues from such taxes will tend either to hold back necessary spending increases or alternative revenue sources have to be found.[17]

Administrative controls on rents are nowhere near the problem with respect to the property tax in the United States as they are in India. New York City and the District of Columbia are the only cities which have some form of rent control and even they encompass a small proportion of total residential properties.[18]

There is, however, another aspect of United States' housing policies that bears mentioning here. This concerns the policy of the Federal government, especially during the late 1960s and early 1970s, of constructing housing to be made available at below market-rate rents to low income persons. The property tax implication of this is that in the United States Federally and state owned properties (even if they are earning rents) are non-taxable. Thus, the increased public activity in this sector did have an effect on the property tax base of most major American cities. They

[16]*Corporation of Calcutta* vs. *Smt. Padma Devi*, 1962, 3 S.C.R. 49. For further discussion see Hira Lal, "Some Legal Issues and Court Decisions on Levy and Assessment of Property Taxes", *Nagarlok*, Vol. VIII, October-December, 1976, pp. 53-62.

[17]This is observed in Ahmedabad and Lucknow which both use the octroi tax and where, over the past several years with increases in both prices and volume of business activity, this *ad valorem* levy has grown considerably more rapidly than property taxes.

[18]We are not aware of any study which has attempted to analyze the property tax implications of even these controls.

have been, however, offset to some extent, by the federal government policy of reimbursing localities for the costs of some specific service, *e.g.*, education, provided to Federal housing residents.

Assessment Lags

Lack of growth in the assessed tax base in both the United States and India can also be tied to the rapidity at which increases in the legal tax base are captured on the tax rolls. In the United States this means that the assessor *should* keep track of the general trends in property values of various types and adjust the assessed value base of each parcel accordingly. While some jurisdictions do, in fact, follow an annual reassessment process in the United States, this tends to be the exception rather than the rule. Some jurisdictions perform full-scale re-evaluations of all properties on the roll at only 4-8 year intervals. In the interim only newly constructed or demolished properties are added to or deleted from the tax roll. While this policy has detrimental effects on the growth of the tax base, it also may have more subtle undesirable effects. Property value growth in American cities certainly is not spatially homogeneous. That is, there are, in most cities, areas or neighbourhoods experiencing rapid increases in values while values in less desirable areas may grow very slowly or actually decline. The four or more year lags in the reassessment process thus have the effect of introducing inequities into the tax base. Even if no assessment errors are made initially, after several years of growth and decline in areas, the growing areas are underassessed while the declining neighbourhoods are over-assessed (at least *vis-a-vis* other properties).

An even more blatant introduction of inequities in the property tax base in the United States is sometimes called the 'welcome stranger' policy. Under such an approach, reassessment occurs *only* when the property is actually sold and a true market value can be observed. But this means that two properties, otherwise equal, will have differential assessments depending totally on if and when the property turned over.

The Indian situation with respect to assessment lags is not much better. Certain states even require that reassessment occur only quintessimally (every five years). In the interim the assessment list can be altered *only* if property is added or deleted. No adjustments in assessed values are possible even if such changes actually occur and are known by the assessor. Once again this introduces inequities into the tax base and retards the growth in tax yield (if rates remain unchanged). The use of rent controls as discussed above have the same effect as lags in assessment.

Collection

The one area in which there seems to be the greatest difference between the United States and Indian experience concerning the property

tax is with respect to collection of the tax. Major American cities tend to collect 90 to 95 per cent of the annual tax levy while in India the percentage is often closer to 60 to 70 per cent. It is difficult to pinpoint the primary cause for this difference. It might be helpful to review breifly the techniques used in the United States to suggest some possible reasons for this divergence.

Most American cities attach penalties as well as interest charges to late payment of taxes. With interest penalties on the order of 6 to 8 per cent per year, most taxpayers find it preferable to pay their taxes on time. Some cities also use a positive incentive system whereby the taxpayer is granted a slightly decreased tax burden if payment is made early in the tax year.

Possibly more helpful than these incentives, however, is the fact that cities are quite willing to undertake proceedings to confiscate the property of nonpayers. While the proceedings are quite lengthy so as to protect the rights of the property owner, just the initiation of such proceedings may be sufficient to encourage, the tardy taxpayer into paying. Of great assistance in this process is, of course, the computer which economically determines exactly which taxpayers are delinquent and can even produce the letter to be sent to the errant taxpayer. This greatly speeds the process and eases the administrative burdens. Finally there does seem to be a climate of general compliance with most taxes in the United States which may also contribute to the overall efficiency of the collection process.

While one could, perhaps. attempt to develop an anthropological explanation for lesser compliance in India, it seems more plausible to consider some basic economic reasons for the lower collection rates.[19] High interest penalties do not appear to be generally used in India. Furthermore, there may be administrative problems associated with collecting the tax. It is often noted that the process of paying takes considerable time of the taxpaper (whereas in the United States the bulk of the payments are made by cheque *via* the postal service) and that errors are quite common thus adding even more to the compliance costs of the taxpayer. It was also suggested that tax collection officials recognise the difficulties taxpayers have in meeting their tax burden and, therefore, are rather lenient in allowing taxpayers not to pay their entire levy. While this may have desirable equity results (if the leniency is granted in a noncapricious manner), it is not a desirable form of income redistribution. If a redistribution policy is desired, it is much more reasonable to redistribute incomes directly rather than *via* the administrative decisions of a few tax collectors.[20]

[19]The Indian problems of collecting the tax are reviewed in B.S. Misra, "Collection of Property Taxes", *Nagarlok*, Vol. VIII, October-December 1976, pp. 69-74,

Centralisation of the Property Tax

In both India and the United States, municipalities are the creation of the states. They thus derive all their taxing powers from the state. Admittedly the system in India provides considerably greater power to the state in the overall budgetary process, however, in both countries localities seem to be quite jealous of their power over the setting of assessed values. There is, nevertheless, an important question as to what role the state should play in the assessment process.

States in the United States do enter the property tax administration process in at least a minor way. For example, most states carry out the assessment of railroad properties. In addition, many states perform an oversight function to insure that assessments are being carried out properly within the localities. Furthermore, since it is the state that determines how property is to be assessed (*e.g.*, at full value or at some set fraction of full value), states may actively enter into the assessment process to ensure the state laws are being carried out correctly.

The problem associated with the assessment process in India have led some to argue that the state should take over the entire process. This would have the possible advantage of increasing the professionalism of the assessment process and possibly decreasing fraudulent practices. It would, however, further weaken the already weak municipal government structure of localities. If the overall competency of municipal governments in India is to be improved, it would seem that centralisation of the assessment process would not aid in this process.

There are, nevertheless, possible roles to be played by states in India. In the first place, a state could actively attempt to strengthen the assessment process. This could take the form of professional training for the assessors and active assistance to municipalities in improving their administrative practices. Secondly, since there currently is intergovernmental aid provided to municipalities, this aid could somehow be altered to provide incentives to municipalities to improve their assessment and collection practices. In the United States some intergovernmental aid is conditioned upon 'tax effort'. That is, those municipalities that are putting forth more effort in levying and collecting taxes are rewarded with higher grants than similarly placed municipalities that put forth less effort. By

[20]A somewhat similar phenomenon has occurred in the United States where assessors sometimes lowered the assessments of those they found 'needy'. It was hoped that the several 'circuit breaker' programmes that have recently been devised to rebate property taxes in excess of a certain proportion of the taxpayer's income would decrease this form of redistribution. For discussions of circuit breakers see H. Aaron, "What Do Circuit Breaker Laws Accomplish?" and J. Shannon, "The Property Tax: Reform or Relief", both in G. Peterson (ed.) *Property Tax Reform*, Washington, D.C., The Urban Institute, 1973.

tying some intergovernmental revenues to the efforts made by assessors and collectors, the overall level of such effort may be improved.[21]

CONCLUSION

This paper has attempted to indicate the many similarities and few differences in the administration of the property tax in India and the United States. While the tax base in the two countries differ, with a free market and proper assessment there would be little difference in the assessments under the two systems. In addition, it is striking that many of the problems faced by assessors and administrators of the tax in the two countries are quite similar. Thus, assessment lags, assessor discretion and the role of higher levels of government face both countries. Probably the most crucial difference in the problems faced in the two countries is not directly tied to the property tax but instead to the housing policies in the two countries. While the housing market in the United States is highly competitive, rent controls in India distort the market and in doing so create problems with respect to both the equity and revenue potential of the tax in India. □

[21]One person with whom I spoke in India even suggested the use of such incentives for the individual assessors and collectors. Salary supplements, could be given to those who were 'doing a better job'. The greatest weakness with such a proposal is that it singles out a particular group of employees and rewards them for simply doing what they are paid for in the first place. If such incentives were used, why limit them to tax assessors and collectors? Why not do the same for street cleaners who do a good job or to bus drivers who remain on schedule?

Legal Aspects of Property Tax Reforms

M. K. BALACHANDRAN

ALL THE Municipal Acts in India have provisions for the levy and collection of property tax which is one of the major sources of revenue for the urban local bodies throughout the country. This tax is normally expected to be a very flexible and growing source of income as it is generally based on the annual value of lands and buildings. However, with the coming into force of the Rent Control legislations in the country, the judiciary started interpreting the municipal law provisions relating to property tax assessment in the light of the Rent Control legislations, imposing certain restrictions on the levy, which have adversely affected the income from this source. *Dewan Daulat Rai Kapoor* v. *New Delhi Municipal Committee and another*[1] is the latest judicial pronouncement on the point. The Supreme Court in this case has not only reiterated the principle laid down by it earlier that the annual value of a building governed by the provisions of Rent Control legislation could not exceed the 'fair rent' or 'standard rent' as defined under it, but also extended the principle still further by holding that even in the case of a building in respect of which no standard rent had been fixed within the prescribed period of limitation or where the building was self-occupied, the annual value must be limited to the measure of standard rent determinable under the rent Act and the same could not be calculated on the basis of a higher rent actually received or receivable by the landlord. The decision has far reaching financial implications not only for the New Delhi Municipal Committee (NDMC) and the Delhi Municipal Corporation (DMC) on whom the effects are direct and immediate,[2] also on other similarly situated local bodies throughout the country. In order to over-

[1]AIR 1980 SC 541. The case was decided on December 20, 1979.

[2]"The financial implications of the aforesaid supreme court judgement are far reaching inasmuch as the New Delhi Municipal Committee and the Delhi Municipal Corporation would be annually losing two crore rupees and five crore rupees respectively. Besides, the aforesaid two municipal authorities may have to refund a major portion of the property tax already collected by them and such a refund in the case of Delhi Municipal Corporation alone may be to the tune of fifteen crore rupees." *Statement of Objects and Reasons of Delhi Municipal Laws, (Amendment and Validation Bill, 1980 (Bill No. 18 of 1980)* as introduced in the Lok Sabha on 4th August, 1980.

come the effect of the above judgement on the NDMC and DMC, a bill has been introduced in the Lok Sabha seeking to amend the relevant provisions of the Punjab Municipal Act, 1911 as in force in New Delhi and the Delhi Municipal Corporation Act, 1957 and also to make suitable validating provisions for validating the assessment of tax on lands and buildings already made in the past.

Could the court have taken a different view in interpreting the existing law, keeping in view the escalating cost of the obligatory functions the municipal bodies are called upon to perform under their governing legislations? Is the suggested amendment reasonable and capable of overcoming the difficulties created by the judgement? What are the legal reforms that are necessary in property tax assessment? The present paper attempts to answer some of these questions and also to suggest remedial measures by a critical analysis of the judicial pronouncements and a comparative study of the relevant provisions of the municipal enactments and the rent control legislations in force in the country.

BASIS OF ASSESSMENT

Under the municipal enactments, with the only exception of the Andhra Pradesh Act (1965), the basis of assessment for the purpose of levying property tax is the 'annual value' or 'rateable value' of lands and buildings. The A.P. Act, however, has separate provisions for assessing rented properties and owner-occupied properties, the former on the basis of their 'annual value' and the latter on 'capital value'.[3] The Act of Gujarat (1963) also provides for 'capital value' as an alternate basis of assessment. The majority of the legislations defines 'annual value' as the gross annual rent at which the land or building may reasonably be expected to let from year to year less an allowance for the cost of repairs and other expenses necessary to maintain such land or building in a state to command such gross rent. However, the definition is slightly different in the legislations of A.P. (1965)' Haryana (1973), Madhya Pradesh (1961), Maharashtra (1965), Punjab (1977) and Uttar Pradesh (1916). Thus, while in the U.P. and M.P. Acts there are provisions for taking the actual rent as the basis for fixing the annnal value of those properties which are actually let out, the Maharashtra, Haryana and Punjab Acts provide that if the amount for which lands or buildings are actually let is greater than the amount for which they may reasonably be expected to let, the actual rent is to be taken as the basis of assessment. Under the A.P. Act, the annual value is to be determined "in such manner as may be prescribed having due regard to the rent received in respect thereof".

[3]Section 85(2).

It may be interesting to note that except in the Municipal Acts of A.P., Haryana and M.P. and the Corporation Acts of Calcutta, Delhi, Gauhati and Punjab (1976) there is no reference to the provisions of the rent control legislations for determining the annual value for the purpose of property tax assessment. The Calcutta Municipal Act (1951) was the first legislation to introduce a restriction on the fixation of annual value by making the same dependent on the 'standard rent' fixed under the Rent Control Act.[4] Under the A.P., Calcuta (1951), Delhi and Gauhati Acts the restriction is that the annual value determined under the municipal law provisions is not to exceed the fair rent/standard rent if already fixed under the relevant rent control legistations, whereas under the Haryana and Punjab (1976) Acts and the Calcutta Bill (1979), the annual value is to be calculated on the basis of fair rent fixed under the Rent Control Act, if the same is already fixed. The M.P. Municipalities Act is slightly different as it defines annual value to mean the annual rent determined under the Rent Act in the case of such buildings whose rents have been so determined.

FAIR RENT OR STANDARD RENT

It is necessary at this juncture to refer to a few material provisions in the Rent Control legislations relating to the fixation of 'fair rent' (some of the Acts use the expression 'standard rent'), for it is the coming into force of these legislations that has created difficulties in the matter of assessment of annual value for the levy of property tax. Rent Control legislations have been enacted with the primary objective of giving protection to the tenants against exorbitant rents and indiscriminate evictions by the landlords. With a view to achieve these objectives, the legislations provide, *inter alia*, for the determination of 'fair rent' which a tenant is liable to pay to his landlord and the landlord is entitled to lawfully claim or recover from his tenant. These legislations which were initiated as temporary war measures in Bombay (1918) and Calcutta (1920), have continued with slight amendments, followed by similar enactments in other states in the country. Subsequently, some of these legislations have been amended while others have been consolidated or replaced by fresh legislations giving them more or less a permanent character.

All these legislations lay down certain formulae for the determination of fair rent of premises in different classes of cases. A comparative study of their relevant provisions has revealed the fact that the methods and procedure prescribed under the various legislations are not only not uniform but vary considerably. However, the different basis adopted under the different legislations for this purpose can be

[4]This proviso was substituted for the original proviso by the Calcutta Municipal (Amendment) Act, 1952.

broadly grouped under the categories mentioned below:

(*i*) The prevailing rent during a base year prescribed under the Act plus permitted increases. Different Acts prescribe different dates for this purpose. The Acts of Andhra Pradesh, Bihar, Bombay, Delhi, East Punjab, Madhya Pradesh, Mysore and Rajasthan provide for this.

(*ii*) The annual rental value as entered in the municipal assessment register or property tax register. The Acts of Andhra Pradesh, Bihar, East Punjab, Kerala, Madhya Pradesh, Mysore and Uttar Pradesh provide for this.

(*iii*) The percentage of the cost of construction of the building and the cost of land comprised therein. The Acts of Assam, Delhi, Madras, Mysore, Rajasthan and West Bengal provide for this.

(*iv*) The fair rent fixed under the predecessor Act. The Act of Bombay Madhya Pradesh and West Bengal provide for this.

(*v*) The prevailing rent at the date of first letting (agreed rent) on or after a prescribed date. The Acts of Bombay, Rajasthan, Delhi, U.P. and West Bengal provide for this.

(*vi*) The reasonable rent having regard to the situation, locality, condition of the premises, amenities provided therein and the rental value fixed by the local authority, if any. The Act of Orissa provides for this.

It may be noticed from the above classification that most of the legislations provide for different methods for different classes of premises within the same state/union territory. For instance under the Delhi Act, standard rent in the case of residential premises let out at any time before June 2, 1944 means the 'basic rent' (the second schedule to the Act provides for the determination of 'basic rent') plus certain permitted increase ; in the case of premises let out on or after June 2, 1944, the rent fixed under the predecessor Act with specified increase; in any other case, the rent calculated on the basis of certain percentage of the aggregate amount of the reasonable cost of construction and the market price of the land comprised in the premises on the date of commencement of construction with specified increase; in the case of premises constructed on or after June 2, 1951 but before June 9, 1955, the annual rent calculated with reference to the rent at which the premises were let for the month of March, 1958 or if they were not so let, with reference to the rent at which they were last let out (this shall be deemed to be the standard rent for a period of seven years from the date of completion of construction); in the case of premises constructed after June 9, 1955 including those constructed after the commencement of the Act, the

annual rent calculated with reference to the rent agreed upon between the landlord and the tenant when such premises were first let out (this shall be deemed to be the standard rent for a period of five years from the date of such letting out) or in those cases where, for any reason, it is not possible to determine the standard rent of any premises on the above principles, "the controller may fix such rent as would be reasonable having regard to the situation, location and condition of the premises and the amenities provided therein and where there are similar or nearly similar premises in the locality, having regard also the standard rent payable in respect of such premises".

In the case of thsoe legislations which prescribe a base year for the fixation of fair rent there is again considerable variation in respect of the dates to which such rent may be pegged in respect of certain types of properties. Thus, the basic date is April 5, 1944 in the Andhra Pradesh Act; November 1, 1941 in Bihar; September 1, 1940 in Bombay June 2, 1944 in Delhi; January 1, 1939 in East Punjab; January 1, 1948 in Madhya Pradesh; April 1, 1947 in Mysore and January 1, 1943 in Rajasthan. Thus, in the majority of cases the scheme of the Rent Act, is to freeze the rentals in respect of old buildings at the base year with marginal permitted increases. As regards the properties constructed or let out after the basic dates or after the commencement of the respective Acts, the position, however, is better.

The legislations which do not prescribe any base year or reference date, are the Acts of Assam, Kerala, Madras, Orissa, Uttar Pradesh and West Bengal. The Assam Act (1966) prescribes an annual return of $7\frac{1}{2}$ per cent on the cost of construction plus the market value of the land on the date of commencement of construction together with the total municipal taxes payable, to be the standard rent. In Kerala (1965) the Rent Control Court, in determining the fair rent, is required to take into consideration the property tax or house tax fixed for the building at the time of letting. If there is no such tax fixed for the building or if it is not based on rental basis, fair rent is to be fixed on the basis of prevailing rent in the locality during the twelve months preceding the letting. Under the Madras Act of 1960, the fair rent for residential building is to be 6 per cent, and for non-residental, 9 per cent of the cost which is to consist of the cost of construction less depreciation as may be prescribed plus the market value of the land and additional allowance not exceeding 10 per cent of the cost of construction for residentail and 25 per cent for non-residential, in consideration of the location, architectural features or other amenities, etc., pertaining to the building. The Orissa Act of 1967 defines fair rent as "rent reasonable, having regard to the situation, location, condition of the premises, amenities provided therein and the rental value fixed by the local authortiy, if any". Under the U.P. Act. (1972), in determining the standard rent, the District Magis-

trate may consider the market value of the building and of its site immediately before the date of commencement of the Act or the date of letting whichever is later; the cost of construction, maintenance and repairs of the building, the prevailing rent for similar building in the locality; the amenities provided and any other material facts. In the case of those buildings for which there is 'agreed rent' or 'reasonable annual rent' (as per the old Act of 1947) certain specified increases in rent are allowed. The West Bengal Act (1956) provides that for premises constructed and let out after the commencement of the Act, the agreed rent on which the premises are first let out is the fair rent for a period of eight years. After this period, the fair rent is to be calculated on the basis of an annual amount at $6\frac{3}{4}$ per cent of the cost of construction and market price of the land on the date of commencement of construction together with half the municipal taxes payable each year.

The Bombay Act (1947) defines standard rent as the standard rent fixed under the predecessor Act if so fixed, and if it is not fixed, the rent at which the premises were let on September 1, 1940 or the rent at which they were first let before or after that date or the rent fixed by the court under section 11 of the Act. Thus the agreed rent has become the standard rent for all practical purposes unless the matter is challenged before a court.

Under the Bihar Act (1947), the fair rent of a building in respect of which a municipal assessment has been made shall for each month be 1/10th of the amount of such assessment. In determining the fair rent of any other building, the Controller is required to have due regard to the prevailing rates of rent in the locality for the same or similar accommodation in similar circumstances during the twelve months preceding November 1, 1941 and to the increased cost of repairs and in case of a building constructed after that date, also to any general increase in the cost of site and building construction. The legislations are uniform in allowing certain increases in the case of additions, improvements or alterations affected by the landlord, even though the rates prescribed are different. The Assam, Orissa and Best Bengal Act, however, provide for increase in rent due to rise in costs or value of the property also.

Yet another common feature in the Acts is the restriction imposed on the landlord from claiming or receiving payment of any rent in excess of fair rent. Here again deviations are noted. Some of the legislations make it penal for the landlord to claim or receive anything more than the fair rent wherever fair rent is fixed, but are silent about those cases where fair rent is not fixed. The Acts of Andhra Pradesh, Kerala, Madras, Mysore and and West Bengal, however, specifically provide that in such cases agreed rent is legally recoverable.

It may be appropriate to mention here that as may be clear from the

above discussion, the principles laid down for the determination of fair rent in many of the legislations, especially in those cases where the fair rent is sought to be linked with the rent prevailing during a specified base year, are outdated and obsolete and have no relevance to the realities of present-day situations. To cite only one example, the provision under the East Punjab Urban Rent Restriction Act of 1949, where the rent of a building constructed now or over the last 30-40 years is required to be fixed on the basis of the prevailing rent on January 1, 1939 with a certain percentage of permitted increase (up to a maximum of 100 per cent), appears to be absurd as the fair rent so fixed will be neither fair nor reasonable and will have no relevance to the rent prevailing in the open market. Yet another point. Under the Rent Acts, the Rent Controller can proceed with the fixation of fair rent only at the instance of a tenant or landlord. Usually, the tenants have been found reluctant to approach the Controller to get the fair rent fixed with the result in the majority of the cases, the Rent Act is ignored and the agreed rent holds the field.[5] Apart from this, the rent control measures have given rise to the 'pugree system' and also the practice of sub-letting by which the tenant (first occupier) gets an income much in excess of the fair rent fixed under the Act.

ANNUAL VALUE AND FAIR RENT RELATIONSHIP

Since the assessment of annual value for the levy of property tax is based on the annual rental value of lands and building, with the coming into force of the rent control legislations with provisions for the fixation of fair rent, the question arose whether in fixing the annual value of premises, the assessment should be based on fair rent chargeable under Rent Act or whether the reasonable rent (the gross annual rent at which a property may *reasonably* be expected to let) could be continued to be determined independently for this purpose. The amount at which a property may be reasonably expected to let is the hypothetical rent which a hypothetical tenant would be willing to pay for a given property. These provisions were based on the prevailing British rating law and as such it may be appropriate to start with the views expressed by the House of Lords in an English case on the point. In *Poplar Assessment Committee* v. *Roberts*,[6] the highest court of England held that "in arriving at the

[5]According to a study conducted in Delhi, only about 5 per cent of the house-owners and 6 per cent of the tenants were reported to have visited the Rent Controller's office for fixation of fair rent. The study concludes that "the majority of houses liable to rent control, escape law only because the particular cases have not been brought to the rent control courts". *Rent Control and Housing in Delhi* by Abhijit Datta, Indian Institute of Public Administration, New Delhi (1968), p. 41.

[6](1922) 2 AC 93.

valuation for the purpose of the Valuation (Metropolis) Act, 1869[7], of a hereditament to which the Increase of Rent and Mortgage Interest (Restrictions) Act, 1920, applied the maximum gross value to be assigned to that hereditament was not limited to the standard rent, together with the additions thereto permitted by the latter Act." However, in a subsequent case the High Court of Rangoon took the view that the position in India was different. The court, in the case of *Municipal Corporation of the City of Rangoon* v. *Surati Bara Bazar Co. Ltd.*[8] held that "in the absence of special circumstances, the Corporation of the City of Rangoon must take as its basis of assessment of buildings and land for fixation, the standard rent in those cases in which standard rent has been fixed by the Rent Controller. In other cases it must fix the rateable value on a consideration of all the surrounding facts and circumstances including the effect that the Rangoon Rent Act has or may have on the matter". The definition of 'annual value' in the Rangoon Municipal Act was the same as that of the Municipal Acts of India, *viz.*, the gross annual rent for which buildings and lands might reasonably be expected to let from year to year. In arriving at the conclusion that the standard rent fixed by the Controller should form the basis for fixation of annual value, the court was largely influenced by the penal provision in the Rent Act, prohibiting the landlord from receiving more than the standard rent, as is evident from the following observations of the court : "The landlord, the standard rent having been fixed by the Controller, could not reasonably expect to get any higher rent for the premises. Did he attempt to do so, he would be guilty of an offence for which he would be liable to a heavy fine."

This view did not find favour with a later bench of the Bombay High court in *Gulam Ahmed* v. *Bombay Municipality*,[9] where the court, following the house of Lords' decision in *Popular Assessment Committee Case*, held that the determination of rateable value of lands and buildings under the Bombay Municipal Act was not to be limited by the maximum standard rent fixed under the provisions of the Bombay Rent Act. According to the court there was no distinction between the Indian law and the English law of rating and under both the rateable value depended not upon the value of the premises to the owner but upon the value of the beneficial occupation to the tenant. The court went a step further and held that the penalty prescribed under the Rent Act for levying anything

[7]Under this Act, 'gross value' was defined "as the annual rent which a tenant might reasonably be expected, taking one year with another, to pay for a hereditament..." and 'rateable value' was defined as "the gross value after deducting therefrom the probable annual cost of repairs and insurance and other expenses as aforesaid".

[8]AIR 1924 Rang. 194.

[9]AIR 1951 Bom. 320.

more than the standard rent did not affect the determination of annual value under the Municipal Act. "Now, if the figure which has got to be arrived at is an imaginary rent, one cannot understand why the statute which makes it impossible for the landlord to levy anything more than the standard rent of the premises, cannot be ignored in finding out the figure. This figure is really speaking the value of the beneficial occupation of the tenant."[10] This decision was cited with approval by Rajamannar C.J., of the Madras high court in *Madurai Municipality* v. *Kamakshisundaram Chettiar*[11] where it was observed that though the fair rent fixed under the Rent Act should ordinarily be taken into consideration by the municipal authorities in computing the annual value under s. 82 of the Madras District Municipalities Act, 1920, "they are not bound to take such fair rent as necessarily the rent for which the premises may reasonably be expected to let within the meaning of s. 82."[12] The court observed : "Instances can easily be imagined in which there may be a fair rent fixed by the Rent Controller which would not at all represent value calculated on the basis of the rent for which the building may be expected to let...A perusal of s. 4 of the recent Rent Control Act would show that the determination of the fair rent is to a certain extent artificial and hypothetical and may not represent the rent at which the premises could reasonably be expected to let during the year of assessment to property tax."[13]

However, with the high court decision in *Corporation of Calcutta* v. *Smt. Padma Debi*,[14] the judiciary reverted back to the position taken by the Rangoon high court and held that in determining the annual value of a building under s. 127 (a) of the Calcutta Municipal Act, 1923, the Corporation of Calcutta was bound by the standard rent fixed by a Rent Controller under the West Bengal Rent Act. In this case, the municipal corporation under the Calcutta Municipal Act, had fixed the annual value of the premises in question on the basis of the rent actually received by the landlord. Meanwhile the standard rent of the premises was fixed under the relevant Rent Control Act at a much lower rate than that of the actual rent. The corporation argued that it had to ascertain only the hypothetical rent realisable from a hypothetical tenant at the time of assessment and not the rent payable by any tenant and therefore, it was not bound to take into consideration the standard rent fixed under the Rent Act. Rejecting this contention the court observed that in determining the annual value of the land and buildings it was the value of the property to the owner that had to be taken into account and held : The

[10]AIR 1951 Bom. 320, at p. 327.
[11]AIR 1956 Mad. 49.
[12]*Ibid.*, p. 52.
[13]*Ibid.*
[14]AIR 1957 Cal. 466.

word 'reasonably' in s. 127 (a) connotes 'legally' and as a holding can never be expected to be legally let out at a rent higher than the standard rent, any rent in excess of the standard rent cannot be said to be the rent at which the building might reasonably be expected to let."[15] *The Poplar Assessment Case* was held inapplicable to the present case as under the English Act it was not illegal for the owner to accept a rent higher than the standard rent if it was voluntarily paid by the tenant unlike under the West Bengal Act under which any amount in excess of the standard rent was not only irrecoverable but also was an offence punishable with fine even if it was voluntarily paid by the tenant. The court referred to a number of English authorities on the point and observed: "Upon these authorities it is clear that if any voluntary payment and acceptance of any rent in excess of the standard rent are not prohibited by statute, the valuation for rating purpose is not limited by the standard rent if such voluntary payment is illegal, the rateable value cannot be fixed higher than the standard rent."[16]

The supreme court on appeal,[17] upheld the ruling of the high court that the criterion was the rent realisable by the landlord and not the value of the holding in the hands of the tenant and pointed out that "it would be incongruous to consider fixation of rent beyond the limits fixed by penal legislation as reasonable". Justice Subba Rao, after analysing the relevant provisions of the Act, observed: "A combined reading of the said provisions leaves no room for doubt that a contract for a rent at a rate higher than the standard rent is not only not enforceable but also that the landlord would be committing an offence if he collected a rent above the rate of the standard rent. One may legitimately say, under those circumstances, that a landlord cannot reasonably be expected to let a building for a rent higher than the standard rent. A law of the land with its penal consequences cannot be ignored in ascertaining the reasonable expectations of a landlord in the matter of rent. In this view, the law of the land must necessarily be taken as one of the circumstances obtaining in the open market placing an upper limit on the rate of rent for which a building can reasonably be expected to let."[18] The court concluded that "in determining the gross annual rent, statutory limitation of rent circumscribes the scope of the bargain in the market and therefore in no circumstances the hypothetical rent may exceed the limit."[19]

Explaining the difference between the English law and Indian law, the supreme court also pointed out that while under the former a contract to pay a higher rent though not enforceable in a court of law

[15]AIR 1957 Cal. 466, p. 470.
[16]*Ibid.*, p. 473.
[17]*Corporation of Calcutta* v. *Smt. Padma Debi*, AIR 1962 SC 151.
[18]*Ibid.*, p. 153.
[19]*Ibid.*

was not unlawful, under the latter, receipt of a higher rent than the standard rent was penalised and observed that "this difference is of vital importance in judging the reasonableness of a landlord's expectation to get a particular rent"[20]

Thus, in this case, the decision is based on a fact situation where the standard rent of the building was fixed under the Act and since it was penal for the landlord to receive any rent higher than the standard rent fixed under the Act, it was held that the landlord could not reasonably expect to receive anything more than the standard rent from a hypothetical tenant and the annual value of the building could not exceed the standard rent. It is submitted that in arriving at the decision, both the high court and the supreme court were largely influenced by the penalty provisions of the Rent Control Act and the legality of the rent realisable by the landlord. The observations by the high court that "if any voluntary payment and acceptance of any rent in excess of the standard rent are not prohibited by statute, the valuation for rating purpose is not limited by the standard rent,"[21] and that of the supreme court that the difference between the English law and the Indian law (as explained) "is of vital importance in judging the reasonableness of a landlord's expectation to get a particular rent"[22] would substantiate the above submission.

The decision in *Padma Debi's Case* was followed by the supreme court in *Corporation of Calcutta* v. *Life Insurance Corporation*,[23] where the question to be decided was whether in determining the annual value of the premises, the assessing authority was entitled to take into consideration the rental received by the tenant from its sub-tenants. Under the relevant Rent Control Act,[24] standard rent was defined under section 2 (10) (b) "where the rent has been fixed under section 9, the rent so fixed, or at which it would have been fixed if application were made under the said section". Here, unlike *Padma Debis' Case*, the standard rent of the building had not been fixed under section 9 but it was the common case of the parties that the standard rent of the premises had been statutorily determined at the amount of the agreed rent by virtue of the second part of the definition. The court pointed out that even though the standard rent of the premises was not fixed by the Rent Controller, it was stautorily determined at the agreed rent and held that the landlord could not reasonably expect to receive any rent higher than the standard rent and the annual value of the building could not, therefore, be fixed at a figure higher than the standard rent. "In determining the assessment of annual value, the assessing authority is not concerned

[20] *Corporation of Calcutta* v. *Smt. Padma Debi*, *op. cit.*, pp. 154-155.
[21] AIR 1957 Cal. 466, p. 473.
[22] AIR 1962 SC 151, pp. 154-155.
[23] AIR 1970 SC 1417.
[24] The West Bengal Premises Rent Control (Temporary Provisions) Act, 1950.

with the rent which the tenant may receive from his sub-tenant. It is the gross rent which the owner may realise by letting the land or building under a bargain uninfluenced by extraneous considerations which determine the annual value."[25]

It may be mentioned here, that the decision in the present case squarely falls within the ruling in *Padma Debi's Case*, for even though the standard rent was not determined, it was held to be statutorily determined and the prohibition in the relevant Rent Act was against receipt of rent in excess of the standard rent which by definition would mean not only the standard rent determined by the Rent Controller but also the one which was statutorily determined.

It was in *Guntur Municipal Council* v. *Guntur Town Rate Payers' Association*,[26] the supreme court further extended the principle of the decision in *Padma Debi's Case* by holding that it equally applied to buildings the fair rent of which had been actually fixed by the Controller as well as those in respect of which no such rent had been fixed. In this case, the municipality had effected a general revision of the rental values of houses and buildings by increasing the rental value to more than the rental value which prevailed on the dates provided in the relevant Rent Control Act under section 7 of the Rent Act[27] the landlord was prohibited from claiming or receiving any payment in excess of the fair rent where the fair rent has been fixed and where such fair rent has not been fixed, the prohibition was against claiming or receiving any payment in excess of the agreed rent. In other words, agreed rent could be lawfully recovered by the landlord in those cases where fair rent has not been fixed. The municipality argued that as per this section it was only after the fixation of the fair rent of a building that the landlord was debarred from claiming or receiving the payment of any amount in excess of such fair rent and that so long as the fair rent was not fixed, the assessment of valuation need not be limited or governed by the measure provided by the provisions of the Rent Act for determination of fair rent. Rejecting this contention, the court held: "It is perfectly clear that the landlord cannot lawfully expect to get more rent than the fair rent which is payable in accordance with the principles laid down in the Act. The assessment of valuation must take into account the measure of fair rent as determinable under the Act. It may be that where the Controller has not fixed the fair rent, the municipal authorities will have to arrive at their own figure for fair rent, but that can be done without any difficulty by keeping in view the principles laid down in section 4 of the Act for determination of fair rent."[28]

[25]AIR 1970 SC 1417, p. 1419.
[26]AIR 1971 SC 353.
[27]The Andhra Pradesh Buildings (Lease, Rent and Eviction) Control Act, 1960.
[28]AIR 1971 SC 353, p. 355.

It may be noted that the only argument on which stress was laid on behalf on the municipality before the supreme court was "that section 7 of the Act makes it clear that it is only after the fixation of the fair rent of the building that the landlord is debarred from claiming or receiving the payment of any amount in excess of such fair rent."[29] As has been rightly pointed out by the Delhi High Court in a subsequent case,[30] the argument that it was lawful for the landlord to charge the agreed rent without incurring any penalty in case where fair rent had not been fixed by the Controller and, therefore, fixing the annual value on the basis of the agreed rent in such cases would be in accordance with the provisions of the Act, was not advanced before the supreme court. This may be because the general revision by the municipality in 1960 was made not on the basis of agreed rent but by increasing the rental value of houses to more than the rental value which prevailed on the dates provided in the Rent Control Acts in force prior to 1960. That such an argument was not preferred before the supreme court is evident from the observation made by the court that "it is perfectly clear the landlord cannot *lawfully* (emphasis supplied) expect to get more rent than the fair rent which is payable in accordance with the principles laid down in the Act,"[31]

The Guntur Municipality Case and the *Padma Debi Case* were distinguished and held inapplicable by the Delhi High Court in *Dewan Daulat Rai Kapoor's Case*[32] where the court held that if the agreed rent was legally recoverable under the relevant Rent Act and if the assessment was based on such agreed rent in respect of premises whose fair rent had not been fixed, the principle of *Padma Debi's Case* would not be attracted. In other words, if the Rent Act permitted or did not prohibit the recovery of agreed rent in the absence of fixation of fair rent, it could not be said that the agreed rent in such case was not rent for which the premises could not reasonably be accepted to let and that such agreed rent could not be the basis of assessing the annual value of any premises.

In this case, the annual value of certain premises situated within the jurisdiction of the New Delhi Municipal Committee and the Delhi Municipal Corporation, were calculated on the basis of actual rent which

[29]AIR 1971 SC 353, p. 355.

[30]*Dewan Daulat Rai Kapoor* v. *New Delhi Municipal Committee*, 1973 MCC (Municipalities and Corporation Cases) 101. The case was decided by a full bench of the high court of Delhi on 16.11.1972, S.N. Andley, C.J. delivered the judgement of the court. The case is discussed in detail.

[31]AIR 1971 SC 353, p. 355.

[32]1973 MCC 101.

was being received by the landlord.[33] Standard rent had not been fixed by the Rent Controller under the Rent Act for the properties in question. The assessment was challenged on the ground that it should have been based not on the actual rent, but on the basis of the standard rent determinable in accordance with the provisions of the Rent Act in force in the area.

Distinguishing the supreme court ruling in *Padma Debi's Case*, the court observed that in that case, the definition of standard rent under the relevant Rent Act meant "not only the standard rent that may actually be fixed by the Rent Controller, but also the standard rent which would have been fixed, if application were made for the purpose". Regarding the *Guntur Municipality Case*, the court pointed out, as mentioned earlier that in that case it was not argued that since under the relevant Rent Act the landlord was permitted to charge the agreed rent without incurring any penalty in cases where fair rent had not been fixed, annual value could be calculated on the basis of the agreed rent without violating the provisions of the Act.

Regarding the relevant provisions of the Delhi Rent Act, the court pointed out that under that Act, agreed rent was legally recoverable where standard rent had not been fixed by the Controller or statutorily determined by the provisions of the Act. In fact, section 12 of the Act provided a period of limitation of making an application to the Controller for fixing, *inter alia*, the standard rent of the premises and if that period expired in a given case and standard rent could not be fixed, then the agreed rent would remain legally recoverable. However, because of the provisions of sections 4 and 5 of the Act which prohibited the recovery of payment of rent in excess of standard rent and section 48 which imposed penalties, *inter alia*, for the contravention of section 5, the dictum in *Padma Debi's Case* would fully apply in the case of premises whose standard rent had been fixed, and not otherwise. In support of this argument, the court, cited with approval the observations made by the supreme court in *Chawla's*[34] *Cases* where it was held that "the prohibition in sections 4 and 5 operate only after the standard rent of the premises is determined and not till then. So long as the standard rent is not determined by the Controller, the tenant must pay the contractual rent; after the standard rent is determined, the landlord becomes disentitled to recover an amount in excess of the standard rent from the date on which the determination operates."

On the above principle, the court held that "the limit placed by the

[33]The buildings were assessed under the Punjab Municipal Act, 1911 and the Delhi Municipal Corporation Act, 1957. Under both the legislations annual value was defined as the "gross annual rent at which such house or building...may reasonably be expected to let from year to year".

[34]*M.M. Chawla* v. *J.S. Sethi*, 1970 (2) SCR 390.

supreme court in *Padma Debi's Case* on rent for which premises can reasonably be expected to let will apply in Delhi only if standard rent has been either fixed by the Controller or is statutorily determind under the Delhi Rent Control Act... If such standard rent has not been fixed by the Controller or statutorily determined under the Rent Act, the agreed rent will be equally recoverable...and would not, therefore, be rent for which the premises cannot be reasonably expected to let".

A CRITICAL ANALYSIS OF THE KAPOOR CASE

This ruling, was thought, would give some relief to the municipal bodies by allowing them to determine the annual value of the premises on the basis of the rent actually received by the landlord at least in those cases where the standard rent was not fixed by the Rent Controller. However, the judgement was overruled by the supreme court recently in *Dewan Daulat Rai Kapoor* v. *New Delhi Municipal Committee*[35] where Bhagwati, J. speaking for the court declared that "the annual value of a building governed by the Delhi Rent Control Act, 1958 must be limited by the measure of standard rent determinable under that Act".[36] The court examined in detail its earlier decisions in *Padma Debi's Case*, *Life Insurance Corporation's Case* and *Guntur Municipal's Council's Case*, and held that the decisions in the latter two cases "completely cover the present controversy and do not leave any scope for further argument."[37] *Padma Debi's Case* was, however, held inapplicable on the ground that unlike in that case, here the standard rent of the building was not fixed by the Controller and hence it could not be said that it was unlawful or penal for the landlord to receive anything more than the standard rent. But, the applicability of the *Life Insurance Corporation Case*, the court said, could not be disputed "because there also, as in the present case, the standard rent of the building was not fixed by the Controller and in the absence of fixation of the standard rent, it was open to the landlord to receive rent in excess of the standard rent, it was open to the landlord to receive rent in excess of the standard rent determinable under the Act".[38] It is submitted with respect, that even though the standard rent was not fixed by the Controller, the same was statutorily determined[39]

[35]AIR 1980 SC 541, decided on December 20, 1979. The judgement of the court, consisting of P.N. Bhagwati, V.D. Tulzapukar and R.S. Pathak JJ; was delivered by Ehagwati, J.

[36]*Ibid.*, p. 550.

[37]*Ibid.*, p. 548.

[38]*Ibid.*

[39]"In the present case, there is no order of the Controller fixing the standard rent under section 9 of the West Bengal Premises Rent Control (Temporary Provisions) Act, 1950, but the standard rent stands determined by the definition of that expression in section 2 (10) (b) of that Act..." AIR 1970 SC 1417, p. 1419.

and since such standard rent was meant to be the standard rent as per the definition in the Rent Act, the landlord was prohibited from receiving anything more than the statutorily determined standard rent also. Hence, it is respectfully submitted, that the decision in the *Life Insurance Corporation Case* cannot be distinguished from that of the *Padma Debi's Case*, and if *Padma Debi's Case* was inapplicable in the present case, the *Life Insurance Corporation Case* was equally inapplicable.

Bhagwati, J. further observed that the *Guntur Municipal Council Case* was 'almost indistinguishable' and the principle of that decision applied 'whole and completely' to the present case, as in that case also as in the present case, the standard rent of the building was not fixed by the Controller and under the relevant Rent Act, in the absence of fixation of fair rent, it was lawfully competent for the landlord to recover rent in excess of the fair rent determinable under the Act and yet it was held that the annual value was limited by the measure of fair rent determinable under the Rent Act. It is submitted with respect that the learned judge erred in thinking that, in the *Guntur Case* the municipal Council had urged before the supreme court that "it was not penal for the landlord to receive any higher rent".[40] A reading of the supreme court judgement in that case clearly shows that such an argument was not advanced before the court. The only argument put forward by the municipal council was that "it is only after the fixation of the fair rent of a building that the landlord is debarred from claiming or receiving the payment of any amount in excess of such fair rent". Therefore, it may not be correct to assume that the *Guntur Municipal Council Case* is an authority for the proposition that even if it was *lawful* for the landlord to receive the agreed rent, the annual value was liable to be determined on the basis of the fair rent determinable under the Rent Act. To hold otherwise would be contrary to the views expressed by the court in that case that "It is perfectly clear that the landlord cannot *lawfully* (emphasis added) expect to get more rent than the fair rent which is payable in accordance with the principles laid down in the Act".[41] On the other hand, if this observation is taken as the correct interpretation of section 7 of the Rent Act, then it is respectfully submitted that such an interpretation would be inconsistent with the plain meaning of the words in that section.

Rejecting the argument of the respondents in the present case, that the landlord could lawfully recover the contractual rent from the tenant as the period of limitation for making an application for the fixation of fair rent had expired, the court observed that the existing tenant "may be liable to pay the contractual rent to the landlord, but the hypothetical

[40]AIR 1980 SC, 541, p. 545.
[41]AIR 1971 SC 353, p. 355.

tenant to whom the building is hypothetically to be let would not suffer from this disability created by bar of limitation and he would be entitled to make an application for fixation of the standard rent at any time within two years of the hypothetical letting and the limit of the standard rent determinable under the Act would, therefore, inevitably enter into the bargain and circumscribe the rate of rent at which the building could reasonably be expected to let".[42] This reasoning will certainly hold good in the case of self-occupied properties where the standard rent will have to be determined by taking into consideration the rent payable by a hypothetical tenant. But to apply the same reasoning to the fact-situation of the present case, where there is a real tenant who has been paying the contractual rent and who is precluded from making an application for the fixation of fair rent under the Rent Act and where the landlord can *lawfully* receive such contractual rent, would make the decision more imaginary than real.[43] It may be pointed out further that this reasoning contrary to the views expressed by the supreme court in *Motichand Hirachand* v. *Bombay Municipal Corporation*[44] that "the actual rent would ordinarily be the rent expected from a hypothetical tenant".[45] Again, the rateable value calculated on the basis of the agreed rent (contractual rent) was held to be valid in a case where such agreed rent was legally recoverable under the rent Act till the standard rent was fixed. Thus, in *Filmistan Private Ltd.* v. *Municipal Commissioner of Greater Bombay*,[46] the court observed that "it is not correct to say that the standard rent which will be the upper limit for the purpose of fixing the annual letting or rateable value must in all cases be such standard rent as would be notionally fixed on an application under section 11 of the Bombay Rent Act, 1947" and held: "in our opinion, under the Bombay Rent Act, in the case of premises first leta fter the first day of September, 1940, the agreed rent at which they were first let, is by statutory definition to be the standard rent. Such standard rent is, however, subject to the provisions of section 11. So long as there is no determination by the court under section 11, the landlord is perfectly justified in recovering from the tenant or claiming from the tenant, the contractual rent; neither his recovery nor his claim is in any sense of the term unlawful."[47]

It is, therefore, submitted with respect, that in the present case it will be correct to assume that the landlord can reasonably expect to receive the contractual rent (actual rent) at least from the present tenant and

[42]AIR 1980 SC 541, p. 550.

[43]Indeed, the court loses its credibility if it rebels against realism. "The law court is not an unnatural world", AIR 1980 SC 1252.

[44]AIR 1968 SC 444.

[45]*Ibid.*, p. 441.

[46]AIR 1973 Bom. 66.

[47]*Ibid.*, p. 71.

the assessment of valuation can be based on such contractual rent as long as the present tenancy continues. This submission is not only in tune with the decisions cited above, but also with the stand consistently taken by the courts in earlier cases, where starting from *Padma Debi*, the courts looked only at the *legality* of the rent received by the landlord. In support, it may be appropriate to reiterate here the following observations made by the supreme court in *Padma Debi's Case*: "There is another difference between the English law and the Indian law. Under the English Act of 1920, payment of rent in excess of the standard rent was not barred and the landlord might receive the same but under the Rent Control Act, receipt of rent higher than the standard rent is penalised; that is, while in England a contract to pay a higher rent may not be enforceable in a court of law, it is not *unlawful. This difference is of vital importance in judging the reasonableness of a landlord's expectation to get a particular rent.*[48] (emphasis added).

The supreme court, in the present case, further pointed out that if the connection of the respondents was accepted it would create an anomalous situation of the annual value of a building varying according as it was tenanted or self-occupied.[49] With respect, the same anomalous situation would present itself if the standard rent determined under the Rent Act is held to limit the determination of annual value as in the case of two identical buildings one of which is governed by the Rent Control Act while the other is not. Under the existing Rent Acts, there are provisions for exempting certain classes of leases from their operation and in respect of those leases, the municipal authorities will be free to assess the valuation at the open market rent, whereas they will have no such right in cases to which the Rent Act applies. This will introduce inequality in the matter of assessment. Same will be the case where a particular building is exempted from the Rent Act for a specified period as is provided for in the Delhi and West Bengal Acts.

Looking at the problem from a slightly different angle, Bhagwati, J. pointed out that "when the Rent Control legislation provides for fixation of standard rent.....it does so because it considers the measure of the standard rent prescribed by it to be reasonable", and as such it will not be right for the court to say that the landlord might reasonably expect to receive rent exceeding the measure of reasonableness provided by the legislature. It is submitted that if the legislature itself allows the recovery of actual rent which may be in excess of the standard rent under certain circumstances, as in the present case after the expiry of the limitation period, on the above reasoning such actual rent should also be considered to be reasonable, as otherwise, the logical conclusion will be

[48]AIR 1962 SC 151, pp. 154-155.
[49]AIR 1980 SC 541, p. 550.

that in such cases the legislature knowingly allows the landlords to recover 'unreasonable' or 'exploitative' rents.

Yet another point. Are the principles laid down under all the Rent Acts in the country for the fixation of fair rent, reasonable ? Long back, Chief Justice Rajamannar of the Madras High Court had pointed out that "a perusal of the recent Rent Act (The Madras Rent Act, 1946) would show that the determination of the fair rent is to a certain extent artificial and hypothetical and may not represent the rent at which the premises could reasonably be expected to be let..."[50] Very recently, the supreme court has also expressed similar doubts when it said, "...whatever may be our views on the reasonableness of tying down assessment for the purpose of rating, to the concept of a rent which has been held to be fair rent in the past, but does not bear a real relationship to the prevailing conditions of the market for accommodation if it was uncontrolled..."[51] It it submitted that as pointed out at an earlier part of this paper, as some of the Rent Acts at least—and the East Punjab Rent Act is one among them—are outmoded and obsolete and the principles provided therein for the fixation of fair rent cannot be regarded as reasonable.

It is, therefore, respectfully submitted that the arguments advanced by the supreme court in overruling the high court decision in *Dewan Daulat Rai Kapoor's Case*, are not convincing. The Court should have upheld the high court ruling that if the agreed rent was legally recoverable under the relevant Rent Act, the assessment based on such agreed rent in respect of a premises whose fair rent had not been fixed, would be legal and valid.

Whatever may be the views on the correctness of the decision, the same will hold good until it is overruled by a future bench of the supreme court. The law as it stands at present, as enunciated by the court, is that the annual value of a building is to be limited by the measure of the standard rent determined or determinable on the principles laid down under the relevant Rent Act and the same could not be calculated on the basis of the actual rent received by the landlord even if such actual rent was legally recoverable under the Rent Act.

EFFECTS OF THE DECISION ON MUNICIPAL REVENUE

Since the annual value in almost all the municipal Acts is rent-based and the courts have interpreted that the annual value determined by the municipal authorities for the purpose of assessment is not to exceed the fair rent under the relevent Rent Control Act, the annual value of a majority of the urban properties has remained frozen, thereby adversely

[50]AIR 1956 Mad. 49, p. 52.

[51]*New Delhi Municipal Committee* v. *M.N. Soi*: AIR 1977 SC 320, pp. 306-307.

affecting municipal revenue.[52] The decision in the *Dewan Daulat Rai Kapoor Case* has placed further restraints on the revenue from this source.

As has been discussed earlier, in the majority of the Rent Acts, the principles laid down for the determination of fair rent have no relevance to the present day conditions inasmuch as they do not keep pace with the changing times and do not take into account the rising market prices of the properties. Prescribing a base year which in certain cases is as far back as 1939 with certain percentage of permitted increases which are quite inadequate when compared to the rent prevailing in the open market, have actually pegged down the rent at the base year, with the result the fair rent under the Rent Act has become considerably less than the market rent. The extent to which assessments of buildings remain frozen varies with the date of their construction and the provisions in the Rent Acts of different states. While the property tax realised from the rent controlled properties, whose annual value is calculated on the basis of fair-rent, is considerably low,[53] the municipal bodies have to provide the same amount of services to such properties also as in the case of other properties which are not covered by the Rent Control Act. While the cost of such services has been progressively on the increase, the income from those properties by way of property tax has remained frozen at the base year. This aspect has been amply illustrated by the Rural-Urban Relationship Committee when they expresssd: "The principle underlying the recovery of house tax is that the municipal bodies render civic services to occupants. Whether a family or group of persons lives in a house whose rent has either been frozen or is contractual, the occupants enjoy the same amenities. Whatever may be the justification for freezing rent at the old rates, the Committee see no reason, why

[52]"As a result of these (judicial) decisions, the annual value of almost all urban properties have remained frozen and the property tax which normally should have been a very flexible and growing source of revenue for the urban local bodies, has not been yielding the best possible results." *Report of the Minister's Committee on the Augmentation of Financial Resources of Urban Local Bodies*, (1963), Government of India, Manager of Publications.

[53]A Study of Under Assessment in the Lucknow Municipal Corporation found from a sample study of old properties covered by Rent-Control Law, that the annual value fixed at Rs. 5·78 lakhs would according to prevailing estimates be Rs. 18.48 lakhs, an increase of 219·7 per cent or more than three times the assessed value: *Property Taxes in Lucknow: A Study of Assessment*; Regional Centre for Research and Training in Municipal Administration, University of Lucknow (1972), (Mimeo).

A similar study of Bombay revealed that the letting value of old properties would increase by 200 per cent for residential accommodation, 800 per cent for shops and offices and 400 per cent for factories in the city: *A Study on Adverse Effects of Rent Control Act on the Assessment of Properties in Bombay*; Regional Centre for Municipal Administration, All India Institute of Local Self-Government, Bombay (1972), (Mimeo).

two occupants of similar houses, one old and the other new, enjoying almost the same standard of services, should be treated differently in the matter of payment of property taxes. The cost of services maintained by the municipal bodies has been mounting, but for old buildings the property tax continues to be charged on the basis of the old valuation."[54]

The court decision in respect of properties which are sub-let have also affected the assessment adversely. In the *Life Insurance Corporation Case*, the supreme court had held that in determining the assessment of annual value, the assessing authority was not to be concerned with the rent which the tenant might receive from his sub-tenants. Similarly, in one of the Bombay cases, the court held that the rents that a landlord could earn were only the rents which were permitted by the Rent Act and as such the rateable value must be limited by the rents earned by the landlord. Under section 147 of the Bombay Municipal Corporation Act, if the property is assessed on the basis of etimated rent which is higher than the one which a landlord is actually recovering, the landlord is entitled to recover the difference from the tenant. However, in view of the court decisions, this provision would be operative only where the tenant has made same additions of alterations to the property. The Maharashtra Finance Commission has cited a number of instances where the tenants were getting much more rents than the landlords by sub-letting the properties.[55] Thus, the principal tenant practically enjoys all the benefits of the property without any liability to pay municipal taxes which are paid by the owner on the basis of the rent he receives from the first tenant.

The Commission observed that "the sole purpose of Rent Control legislation was to regulate only the relationship between the landlord and the tenant, so far as rent and evictions were concerned. However, the most unfortuntae result of the Act has been to debar the urban local bodies from making a periodical revision of assessment of properties within their jurisdiction and as a result the urban local bodies have ceased to revise periodically the assessment of properties. Consequently they are deprived of their legitimate revenue from property tax. As the property tax is based on the fixed percentage of rateable value, the disparity in absolute terms between the tax levied in the case of old and new properties keeps on progressively increasing".[56] The Commission

[54]*Report of the Rural Urban Relationship Committee*, Vol. I, Ministry of Health and Family Planning, Government of India (1966), p. 97.

[55]A shop in Parel area was found sublet at Rs. 200 p.m. against the principal tenant paying Rs. 41 p.m. A residential room of 114 sq. ft. on the first floor was being used as an office by a subtenant paying Rs. 150 p.m. while the rent received by the owner was Rs. 14 p.m.: *Report of the Municipal Finance Commission*, Government of Maharashtra, March 1979 (Mimeo.), pp. 192-94 and 197-99.

[56]*Ibid.*, p. 52.

further pointed out that the local bodies were thus compelled to discriminate between one citizen and another residing in the same municipal area. "The urban local body has the right and responsibility to spread the expenditure on civic services equitably amongst its citizens. These norms and principles of local self-government are progressively eroded by the Rent Control Act, and the gap in the cost of civic services is made good partly by the owners of newly constructed properties and partly by drawing on the meagre general revenues of urban local bodies." "The net effect of this", the Commission concluded, "is not only to cripple the income and elasticity of this most important source of revenue available to local bodies, but to introduce grave distortions in the incidence of the tax on different groups of properties and occupants in the same local body, as well as to breed social evils of 'pugree system' and black market transactions."[57]

These observations sum up clearly the adverse effects of tying assessment of annual value for the levy of property tax with the fixation of fair rent under the Rent Control legislations.

SUGGESTED REFORMS

Undoubtedly, the judicial interpretation of the property tax provisions in the municipal enactments have placed considerable restraints on the municipal authorities in the matter of assessment, reducing to a great extent, the income of urban local bodies from this important source of revenue. To remedy the situation, suitable measures have to be devised so that the financial resources of the local bodies can be raised without placing undue hardship on the tax payers. Such measures may be directed towards :

(*i*) Amending the relevant provisions in the Rent Control legislation so as to make the fixation of fair rent more pragmatic and real : or

(*ii*) Amending the property tax provisions in the municipal enactments so as to free the determination of annual value from the restrictive influence of the Rent Control Acts.

Amending the Rent Control Law

As has been pointed out earlier, the principles provided in most of the Rent Acts for the fixation of fair rent are outdated and as such are far from reasonable in modern times. It is suggested that the definition of fair rent in these legislations may be suitably amended so as to give it a more pragmatic and scientific content. The provisions in some of

[57] *Report of the Municipal Finance Commission, op. cit.*

the more recent enactments can be taken as the model for bringing about such changes. The provision which requires the linking up of the fair rent with the prevailing rent of a prescribed base year should be completely deleted. The municipal assessment can be adopted as the basis for the determination of fair rent as provided for under the Bihar and Kerala Acts; but to eliminate the possibilities of under-assessment and other malpractices, in such cases, the valuation of properties determined by an independent valuation machinery established by the state for the purpose, should be adopted for municipal assessment. Whenever the assessment is revised as a result of periodical revaluation of properties, the fair rent fixed should also be refixed accordingly. Alternatively, the provision in the Orissa Act under which fair rent is defined as "the rent reasonable having regard to the situation, locality, condition of the premises, amenities provided therein and the rental value fixed by the local authority, if any", can be adopted. Whatever may be the principles, the Acts should invariably provide for periodical revision of fair rent which should take into account the rise in the value of lands and buildings and other relevant circumstances. With suitable amendment in the definition of fair rent and with necessary provision for its periodical revision, the 'fair rent' can be brought closer to the 'rent reasonable' and in such a case the assessment based on the fair rent so fixed will certainly fetch a reasonable income to the municipal bodies. Such a measure will not only give relief to the urban local bodies but also would ensure a reasonable rate of return to the landlords.

Amending the Municipal Law

In amending the municipal law provisions relating to property tax assessment, three different approaches can be adopted, *viz.*, (*a*) changing the definition of 'annual value' so as to isolate the basis of assessment from the provisions of the Rent Act; (*b*) making the occupier liable to pay the property tax, and (*c*) changing the base from 'annual value' to 'capital value' or 'floor area'.

(*a*) *Changing the Definition of Annual Value* : As has been mentioned earlier, in almost all municipal enactments, assessment is based on 'annual value' which is defined as the "gross annual rent at which a property may reasonably be expected to let". The word 'reasonably' appearing in the definition has been interpreted by the courts as having a direct relationship with the fair rent determinable under the relevant Rent Act. However, some of the municipal legislations (U.P. & M.P.) provide for taking the actual rent as the basis of assessment while few others (Maharashtra, Haryana and Punjab) provide that if the amount for which lands and buildings are actually let is greater than the amount for which they may reasonably be expected to let, the actual rent is to

be taken as the basis of assessment. The Rural-Urban Relationship Committee has also recommended that specific provision be made in all municipal Acts "that the valuation shall be made on the basis of annual rent at which property is reasonably expected to be let or the actual rent, whichever is greater."[58] In these cases, since the statute itself allows the adoption of 'actual rent', as the basis of assessment, the decision in *Dewan Daulat Rai Kapoor's Case*, may not apply, as the court will have to give effect to to the plain words used in the statute, *viz.*, 'actual rent'. In support, it may be pointed out that in *M. N. Soi's Case*[59] the supreme court had observed that in income tax cases, since the basis of taxation was the actual income and not a determination of what a prudent man could reasonably do to get the income, assessment could be made on the actual income even if it was illegally made even by indulging in criminal activities. On the same reasoning the court might hold the assessment based on 'actual rent' valid, if such actual rent could be legally allowed to be the basis of assessment. However, the provision will be applicable only in those cases where the landlord receives actual rent; cases of owner-occupied premises or where the landlord is receiving only the fair-rent fixed under the Rent Act, will not be covered by such a provision, as in the former case, the building will never be let out and as such the question of its owner getting the 'actual rent' will not arise in the latter case, the fair rent fixed under the Rent Act will be the actual rent.

It may be appropriate at this juncture to refer to the proposed amendment in the Delhi Municipal Laws (Amendment and Validation) Bill, 1980 which is now before the Parliament, for amending the relevant provisions in the Punjab Municipal Act, 1911 as in force in New Delhi and the Delhi Municipal Corporation Act, 1957. By the amendment, the determination of annual value under these two Acts are sought to be based on "the actual rent received or receivable" or the standard rent whichever is higher 'notwithstanding anything contained in any other law for the time being in force.'[60] Thus, the amendment seeks to incorporate

[58] *Rural-Urban Relationship Committee, op. cit.*, p. 97.

[59] AIR 1977 SC 302, p. 306.

[60] In the Punjab Municipal Act, 1911 as in force in New Delhi . . . in clause (b) sub-section(1) of section 3 . . . . . the following explanation shall be inserted namely:

'Explanation I—For the purpose of this clause the expression "the gross annual rent at which such house or building, together with its appurtenances and any furniture that may be let for use or enjoyment therewith, may reasonably be expected to let" shall notwithstanding, anything contained in any other law for the time being in force, mean and deemed always to have meant the actual rent received or receivable for much house or building or where the actual rent received or receivable is less than the standard rent determined for such house or building under, or as the

(*Continued on next page*)

the 'non-obstante' clause, *viz.*, "notwithstanding anything contained in any other law for the time being in force", presumably with a view to isolate municipal assessment from the provisions of the Rent Act. This clause exists in the M.P. Municipal Corporation Act, 1956 [section 138 (*b*)] and has been interpreted by the supreme court in favour of the Municipal Corporation in the *Ratna Prabha Case*.[61] In this case, the court had held that it would be a proper interpretation of the provisions of section 138 (b) "to hold that in a case where the standard rent of a building has been fixed under section 7 of the Madhya Pradesh Accommodation Control Act, and there is nothing to show that there has been fraud or collusion, that would be its reasonable letting value, but, where this is not so, and the building has never been let out and is being used in a manner where the question of fixing its standard rent does not arise, it would be permissible to fix its reasonable rent without regard to the provisions of the Madhya Pradesh Accommodation Control Act 1961. This view will, in our opinion, give proper effect to the non-obstante clause in clause (*b*) with due regard to its other provision that the letting value should be 'reasonable'.[62] However, in *Dewan Daulat Rai Kapoor's Case*, Bhagwati, J; expressed doubts whether this was the correct interpretation of section 138 (*b*),[63] but did not overrule *Ratna Prabha*. Assuming that *Ratna Prabha* was validly decided, the non-obstante clause would save the fixation of annual of only those properties which are never let (owner-occupied premises) or which are being used in a manner where the question of fixing its standard rent does not arise (*e.g.*, hotels), from the Rent Control Act, but would not save those whose standard rents have been fixed under the Rent Act. The Delhi Amendment Bill has not only incorporated the non-obstante clause, but also the words 'actual rent received or receivable' presumably with a view to completely eliminate the influence of the Rent Control Act. However, the word 'receivable'

(*Continued from previous page*)
case may be in accordance with the principles laid down in, the law relating to control of rents, for the time being in force, then the standard rent.

In the Delhi Municipal Corporation Act, 1957 . . . in section 116,

(*i*) the second proviso to sub-section (1) shall be omitted, and (*ii*) the following Explanation shall be added at the end, namely:

Explanation—For the purpose of this section, the expression "the annual rent at which such land or building might reasonably be expected to let" shall, notwithstanding anything contained in any other law for the time being in force, mean and be deemed always to have meant the actual rent received or receivable for such land or building under or, as the case may be, in accordance with the principles laid down in, the law relating to control of rents, for the time being in force, whichever is higher. Clauses 2 and 3 of the *Delhi Municipal Laws (Amendment and Validation) Bill, 1980 (Bill. No. 18 of 1980)* as introduced in Lok Sabha on 4-8-1980.

[61] *Municipal Corporation, Indore* v. *Smt. Ratna Prabha*, AIR 1977 SC 308.

[62] *Ibid.*, p. 310.

[63] AIR 1980 SC 541, p. 546.

is likely to attract adverse judicial opinion on the ground that it confers wide arbitrary powers on the assessing authorities. It is also likely that 'receivable' may be interpreted to mean 'reasonably receivable thereby bringing in the concept of fair rent. Assuming that the courts will uphold the validity of the amendment as proposed, it may be noted that at least in those cases where the landlords are receiving only the fair rent, the Rent Act, will have its say. The point that is intended to be brought home is that as long as assessment is based on annual rental value it may not be possible to completely exclude the influence of the Rent Control legislation on property tax assessment. Under such circumstances, the solution lies in amending the Rent Control Acts as suggested above or alternatively, to allow the municipal assessment to be based on the value of the property to the occupier and make the occupier liable to pay the tax.

(*b*) *Making the Occupier Liable to Pay the Tax.* In England, the rateable value is determined on the basis of the value of the property to the occupier who is made liable to pay the taxes on lands and buildings, as the benefits of municipal services and amenities are generally enjoyed by the occupier and not by the absentee landlord. Because of this, the Rent Restriction Act does not in any way restrict the valuation of property for the purpose of levying property tax.[64] The only objection to adopting the British practice seems to be that in such a case recovery and collection of taxes would become more difficult. In England this difficulty is met by adopting the practice to have the tax collected through the landlord who is authorised to recover it from the occupier along with the rent.

With a view to free the property-tax from the restrictive influence of the Rent Control Acts, the Minister's Committee (1963) had recommended either: (*i*) the imposition of the surcharge of 25 per cent on the existing property tax, the burden of which should be shifted on to the tenant, or (*ii*) making suitable amendments in the Municipal as well as the Rent Control Acts, "to enable recovery of the difference between the property tax based on reasonable annual rental value and that based on the standard rent from the owner, but allow him, to recover the same from the tenant as arrears of rent".

It may be pointed out that the first recommendation if implemented would create undue hardship on the tenants of uncontrolled properties as they would also be required to pay the surcharge. To avoid this,

[64] "In England, the Rent Control Act does not in any way restrict the valuation of property for levying rates. The rent prescribed by the Rent Control Act restricts only the rent that any occupier has to pay to the owner of the premises. It does not in any way restrict the Central Valuation Agency from estimating the reasonable annual rental value for the purpose of working out the local rates" *Report of the Minister's Committee on the Augmentation of Financial Resources of Urban Local Bodies, op. cit.*, p. 39.

suitable provisions should be made in the municipal enactments for classification of properties into: (*a*) those falling under the Rent Control Acts, and (*b*) those falling outside the scope of the Rent Acts. Properties coming under the former category may be assessed to a higher rate of tax than that charged on the properties falling under the latter category so as to keep the incidence of tax more or less the same on both the types of properties. In respect of tenant occupied buildings, the incidence of the additional tax may be allowed to pass on to the occupier by an enabling provision made in the legislation entitling the owner to recover the tax from the occupier. Regarding the second recommendation it may be pointed out that it presumes that municipal assessment can be based on "reasonable annual rental value" (different from standard rent) which presumption is not correct.

(*c*) *Changing the Base to 'Capital Value' or 'Floor Area'*: The Local Finance Inquiry Committee (1951) and the Taxation Enquiry Commission (1955) had examined the question of changing the basis of assessment from annual rental value to capital value and had arrived at the conclusion that the *Status quo* should be maintained for the reason that "there should be no change from the well-tried basis of rent to the more or less uncertain basis of capital value". The Minister's Committee (1963) also felt that it was not necessary to make an outright departure from the existing system. The Committee observed: "If by suitable legislation the property tax can be free from the freezing influence of the Rent Control Act and assessment is also done through a Central Valuation Agency, we are of opinion that this tax can be rehabilitated and made a very valuable source of revenue to the urban local bodies".[65]

The capital value basis of assessment was sought to be introduced in Andhra Pradesh through a provision in the Andhra Pradesh Municipalities Act (1965) for assessing owner-occupied premises only on capital value basis. However, the rented properties were required to be assessed on the basis of annual value.[66] This provision could not be enforced as it was resisted by the owner-occupiers as discriminatory on the ground that in the case of older properties, particularly, this would mean a sudden increase in their tax liability, while other similarly situated properties in the same area would continue to pay the old rates. However, there cannot be any valid charge of discrimination if the legislation provides for uniform application of the capital value basis to all properties.

One of the main objections to the adoption of capital value basis has been that the assessment of capital value is a laborious technical process and the majority of the local bodies may not have necessary

[65]*Report of the Minister's Committee on the Augmentation of Financial Resources of Urban Local Bodies, op. cit.*, pp. 43-44.

[66]Section 85 (2).

technical expertise to carry out periodic assessment of capital valuation of all properties. It may be argued in favour, that as assessment of capital value is required for other purposes also such as wealth tax, estate duty, acquisition proceedings, etc., if an independent valuation machinery is established for valuation purposes, it would provide an equitable basis for valuation for different purposes by different agencies, including the assessment of property tax by municipal bodies.

An alternate approach is to change the basis of assessment to 'floor area base'. This, however, requires adequate legal sanction for adoption, as otherwise the assessment is likely to be struck down by the courts as invalid. The supreme court has expressed its disapproval in adopting this method by the municipal authorities under the existing provisions relating to the fixation of annual value. Thus, in *Lokmanya Mills, Barsi Ltd* v. *Barsi Borough Municipality, Barsi*[67] the court struck down as illegal and *ultra vires*, the computation of rental value on the basis of the floor area of certain buildings, while the municipal Act had provided for the assessment of valuation on the basis of capital value or annual letting value of lands and buildings. The court observed: "The Municipality ignored both the methods of valuation and adopted a method not sanctioned by the Act. By prescribing valuation computed on the area of the factory buildings, the municipality not only fixed arbitrarily, the annual letting value which bore no relation to the rental which a tenant may reasonably pay, but rendered the statutory right of the tax payer to challenge the valuation illusory".[68] In a subsequent case, *Manek Chowk Spg. and Wg. Mills Co.* v. *Municipal Corporation of the City of Ahmedabad*[69] the court pointed out that the flat rate method according to the floor area could only be applied "where the majority of the properties are so nearly alike in character as to be regarded as identical for rating purposes" and "applied indiscriminately it is sure, to give rise to inequalities". In this case, the municipal corporation had imposed property tax on the petitioner on the basis of a flat rate per 100 sq. ft. of the floor area of the petitioners' property as also of all other textile mills, factories, university buildings, etc. The building was further divided into two classes, one for processing and the other non-processing, and monthly rentals for these two classes were calculated on floor area basis but at different rates. The court held the method adopted as violative of the equality provisions of the Constitution (Article 14), "as there has been no classification of factories on any rational basis. Further, there does not seem to be any basis for dividing the factories and the buildings thereof, under two general classes as buildings used for

[67] AIR 1961 SC 1358.
[68] *Ibid.*, p. 1360.
[69] *Ibid.*, p. 1810.

processing and building for non-processing purposes".[70]

The absurdity of applying the floor area method without any rational basis was amply illustrated by the high court of Mysore in *Bhuwaneswariah* v. *State of Mysore*,[71] whereunder the scheme of the Mysore Buildings Tax Act, 1963, a cowshed and an ultra modern cinema house in the best locality would be charged with the same amount of tax if the extent of floorage of both were the same. The court observed that the Act suffered from lack of rational classification and held it invalid. It further observed: "The floorage basis is not only unscientific, it is something arbitrary and mechanical. It does not conform to any of the known principles of taxation. In the very nature of things, under that basis, the incidence of tax must fall evenly on things similar."

Again in *Kunhali N. Haji* v. *State of Kerala*,[72] the Kerala Buildings Tax Act, 1961, under which tax was sought to be imposed not on the basis of letting value but on the floor area of buildings was held invalid on the ground that lack of classification had resulted in inequality. Upholding the decision, the supreme court pointed out that "the legislature has not taken into consideration in imposing tax, the class to which a building belongs, the nature of construction, the purpose for which it is used, its situation, its capacity for profitable user and other relevant circumstances which have a bearing on matters of taxation. They have adopted merely the floor area of the building as the basis of tax irrespective of all these considerations. Where objects, persons or transactions essentially dissimiliar are treated by the imposition of a uniform tax, discrimination may result, for refusal to make a rational classification may itself in some cases operate as denial of equality".[73]

The above mentioned rulings make it clear that the courts are averse to the adoption of floor area basis without taking into consideration other relevant factors such as the class to which the building belongs, the use to which it is put, materials used for its construction, the nature of construction, its situation, its capacity for profitable user, its cost, its economic rental and other relevant circumstances.

In changing the base from annual value to floor area, the law should clearly specify the factors that should be taken into consideration in making the assessment on floor area basis.

CONCLUSION

There is no gain-saying the fact that the municipal bodies are in the dire need to have more resources to discharge their basic functions of

[70]AIR 1961 SC 1358.
[71]AIR 1965 Mys. 170.
[72]AIR 1968 Ker. 14.
[73]*State of Kerala* v. *Haji K. Kutty Naha*, AIR 1969 SC 378, p. 380.

providing minimum services to the community. Under the existing municipal law provisions, as interpreted by the supreme court in *Dewan Daulat Rai Kapoor's Case* (whatever may be the views on its soundness), property tax will cease to be a growing source of income to the urban local bodies. The imperative of the situation, therefore, is to bring about suitable reforms in property tax. Such reforms may be on any of the lines suggested above. It will, however, be easier to bring about the suggested amendments in the Rent Control Legislations so as to make the fixation of 'fairr ent' more pragmatic with a view to bring it closer to 'reasonable rent'. Such a measure will not only ensure a fair rate of return to the owners of rent-controlled properties, but will also enable the local bodies to obtain their due share from the properties without upsetting the existing system of valuation.

Municipal Property Tax
A New Approach

G.V. RAMAKRISHNA

THE LEVY and assessment of property tax by municipal bodies has given rise to widespread complaints from the public. In this paper an attempt is made to analyse the basis of the present system, and causes for complaints, and to suggest a new approach which may meet most of the legitimate objections against the existing practices.

In the state of Andhra Pradesh, as in many other states, property tax is at present levied with reference to the 'annual rental value' (ARV) of buildings. In actual practice the fixation of the ARV is beset with numerous difficulties. The ARV is theoretically expected to reflect the rent that a particular building will fetch in a free market where tenant and landlord are able to arrive at a mutually acceptable rent under competitive conditions. However, the determination of ARV for actually rented buildings has several snags. It is even more complicated in the case of owner occupied buildings.

Rented buildings can be classified into three categories:

(*i*) those for which fair rent has actually been fixed under the Rent Control Act;
(*ii*) those that are within the purview of the Rent Control Act but fair rent has not actually been fixed under the Act; and
(*iii*) those that are outside the purview of the Rent Control Act.

For buildings in the first category, the ARV will be the actual fair rent fixed for the building in accordance with a recent decision of the Supreme Court.

For building in the second category, the Supreme Court decision would have the effect of having the ARV fixed with reference to the fair rent fixable under the Rent Control Act. However, it is possible to take the view consistent with the above decision that where the actual rent received exceeds the notional fair rent fixable under the Rent Control Act such actual rent may be taken into account for arriving at the ARV.

For the third category of buildings the ARV will be based on the declared rent as evidenced by lease deeds or declarations of tenant and landlord. It is, however, open for the Valuation Officer to disregard the declared rent and adopt an estimated rent if in his opinion there is suppression of facts or collusion between the tenant and landlord for declaring a lower rent than what would be the market. In the fixation of estimated rent there is considerable discretion and hence discrepancy in the rent fixed by different Valuation Officers. In theory the market rent prevailing in the area for similar buildings is supposed to be taken as the estimated rent. In actual practice it is diffcult to arrive at a truly representative and accurate market rent as no two buildings are completely alike and the rents for similar buildings are themselves highly variable owing to various non-economic factors. Moreover, the sampling of rents for similar buildings will vary with different Valuation Officers. Hence, even with the most conscientious effort it is not possible to fix the ARV in the such cases on a demonstrably objective basis. It is this situation that has been the main cause of complaints of arbitrariness in the assessment of property tax.

In the case of buildings wholly or partly occupied by the owner the task of fixing the ARV is somewhat more difficult. If such buildings come within the purview of the Rent Control Act then the fair rent fixable under the Act has to be arrived at. If they are outside the purview of the Act, the market rent that the building will fetch will be the basis for arriving at the ARV. While legally there is no specific relief or concession in property tax payable on owner occupied buildings, in practice, Valuation Officers fix the ARV of such buildings 10 to 50 per cent below the market rent. There is again scope for discretionary variations.

It will be noticed from the above narration of the theory and practice of fixing the ARV of buildings that the assessment of property tax lays itself open to the charge that it is at best discretionary to a large extent and at the worst arbitrary to an unacceptable degree.

There are two other factors that are relevant for an understanding of the current situation. Municipalities are increasingly faced with the problem of having to meet rising demand for civic services owing to growth of urban population without any increase in the available sources of revenue. With the abolition of octroi and the withdrawal of the right of motor vehicle taxation without any corresponding compensation, municipalities have been forced to rely increasingly on property tax as an expanding source of revenue. They have sought to raising additional revenues by revising and rectifying the under-assessment of property tax on a systematic basis, by raising the rate of taxation and by improving the collection of arrear and current taxes.

The absence of elected councils during the last few years and the

administration of municipalities by Special Officers has enabled this process to take place without the deliberative processes of local government.

The combined result of the system of assessing property tax, with its built-in element of discretion, and its enthusiastic application in circumstances of compelling financial need has been the widespread dissatisfaction among tax payers.

The municipal authorities explain that in most cases the assessments prevailing earlier were well below legally appropriate levels, and if, in the process of correcting under-assessments, higher taxes are demanded the tax payers should count the blessings of earlier under-assessments and lower taxes enjoyed by them rather than complain about the loss of the earlier irregular benefits. They also point out that in the case of rented buildings the assessments are made on firm evidence of increasing rent. With less assurance they point out that there are not many cases of correction or increase in the case of owner-occupied buildings.

A careful consideration of the nature of complaints from tax payers and the response of the municipal authorities shows that the problem has to be dealt with in two distinct parts.

First, the degree of discretion and possible arbitrariness in the present system has to be reduced, if not eliminated altogether. Whether it is possible to devise a new and practical basis for assessment of property tax in a manner that can be demonstrably objective has to be examined. This is dealt with in the latter part of this paper.

Second, whether the taxation can be made more progressive by giving relief to the lower middle classes who depend on rents as the main source of income and to owner-occupied residential buildings without affecting the overall revenues of the municipalities in any significant manner.

A NEW BASIS FOR PROPERTY TAX

The basic idea is to move away from the concept of property tax levied with reference to ARV, to the levy of property tax with reference to objective criteria related to the building. Although attempts have been made to levy property tax with reference to the plinth area of buildings, such measures have not been able to stand the test of judicial scrutiny mainly on the ground that plinth area alone cannot be a sufficient criterion but other attendant factors should also be taken into account. The Kerala Buildings Tax Act (19 of 1961) sought to levy the tax on buildings on the basis of plinth area alone and in State of Kerala *versus* Haji K. Kutty Naha (AIR 1969 SC 378) the Supreme Court held that the charging section violated the equality clause of the Constitution and the main grounds for judgement were that no attempt was made for

rational classification of buildings and the Legislature had not taken into consideration other factors, like, the nature of the construction, the location, the class to which the building belongs and the purpose for which it is used.

While in the light of the Supreme Court judgement, the levy of property tax on the basis of plinth area alone would not be constitutionally valid and perhaps also not be sufficiently scientific, it would also be imprudent to give up the whole concept altogether. On the other hand, attempts should be made to have a rational classification on the basis of the factors referred to in the Supreme Court judgement and other relevant factors. Under the new system now proposed, there will be a basic tax related to the plinth area or carpet area. For buildings with appurtenant land exceeding three times the built-up area, there will be a surcharge on the excess appurtenant land. On the basic tax and surcharge there will be extras based on the location of the building, the type of construction, the nature of its use, and the age of the building. Under each of these variables, there will be five or six categories into one of which the building will be classified. Thus, a building can be classified for purposes of taxation, according to six variables which are all capable of being determined objectively. The statements and examples of calculations (pp. 6-9) bring out the details of the scheme on an illustrative basis. The advantages of the new system will be :

(*a*) once the rates of basic tax, surcharge and extras are published, it will be possible for a property owner himself to assess the tax payable and to pay tax on a self-assessment basis;
(*b*) the scope for discretion now exercised by Valuation Officers will be greatly reduced. Where there can be variations in assessments made by the owner and the VO, as in determining the type of construction, the difference in tax will not be very large and the matter can be easily resolved in revision;
(*c*) the computerization of tax system will be made easier and more scientific;
(*d*) the effort and expense in quinquennial revision of property tax can be saved and the staff used for intensive verification of the property characteristics of buildings with higher taxes; and
(*e*) the variation of taxes can be made by municipalities by altering the rates of basic rate and extras;
(*f*) progression in taxation can be brought about by fixation of extras in a manner that gives relief to the weaker sections of society.

The question may be asked whether even with a more scientific and objective system such as the one described above, the benefit can extend

beyond the mere elimination of arbitrariness to the introduction of an element of progression in property taxation. From what has been stated earlier can it be seen that the system lends itself to achieving the second objective also. The fixation of the basic rates and the extras can be done in a carefully controlled manner to provide relief to the weaker sections of society without any significant effect on municipal revenues. It would also be possible to give specific relief to owner occupying their own buildings for residential purposes. The examples, worked out in the statements (page 6-9), bring this out clearly.

While in the new system described above, it would be possible and indeed necessary to remove the restraining influence of Rent Control Act on the levy of property tax, it is also recognised that suitable adjusments may have to be made in the fair rent on account of any likely increase in property tax in certain types and categories of buildings. Some provisions to this effect are already there in the Rent Control Act and perhaps they may have to be amplified further.

The far-reaching and fundamental change in the system of levying and assessing property tax will also require suitable amendments to the existing legal provisions in the various municipal Acts.

The above proposals are being made mainly to elicit comments and to provoke a meaningful discussion on the subject. It may be emphasised that no decision of the Government has been taken on these proposals so far.

Schedule

RATES OF BASIC TAX, SURCHARGE AND EXTRAS APPLICABLE FOR CALCULATION PROPERTY TAX ON BUILDINGS (UNDER RULE 8 OF THE MUNICIPAL CORPORATION OF HYDERABAD PROPERTY TAX RULE, 1977)

1. *Basic Tax*:
   (*a*) Per square metre of carpet area. Rs.
   (*b*) Surcharge for appurtenant land in excess of 3 times the built up area. Rs.

2. *Extras* : As percentage of Basic tax and surcharge.

   (*a*) *Location* :

I	II	III	IV	V
10%	20%	30%	40%	50%

   (*b*) *Type of construction* :

I	II	III	IV	V	VI
10%	20%	50%	75%	100%	Special rates.

   (*c*) *Nature of use* :

I	II	III	IV	V	VI
10%	20%	30%	50%	75%	Special rates.

   (*d*) *Age of the buildings*:

I	II	III	IV	V
Nil.	10%	20%	30%	50%

   The rates of extras are purely illustrative.

3. *Explanation*:

			Circle No.	*Ward No.*
(*a*) *Location*:				
I	:	(A)	,,	,,
		(B)		
II	:	(A)	,,	,,
		(B)		
		(C)		

III	:	(A)	*Circle No.*	*Ward No.*
		(B)		
		(C)		
IV	:	(A)	,,	,,
		(B)		
V	:	(A)	,,	,,
		(B)		

(*b*) *Type of Construction* :

I	Roof	:	A.C. Sheet or metal sheet or thatch.
	Floor	:	Mud, rough stone without base course.
	Walls	:	Brick in mud with or without plastering.
II	Roof	:	Mangalore or other tile.
	Floor	:	Rough stone with base course or cement.
	Walls	:	Brick in lime or cement mortar with lime. plaster.
	Other	:	Less than 2 toilets, common or attached.
III	Roof	:	R.C.C. or jack arch.
	Floor	:	Polished stone, ordinary mosaic.
	Walls	:	Brick in lime or cement with plaster.
	Others	:	Two or more attached bath-rooms, panel doors or common.
IV	Roof	:	R.C.C.
	Floor	:	Superior mosaic or marble over at least 60% of carpet area.
	Walls	:	Brick in lime or cement mortar with cement plastes.
	Others	:	Two or more attached bath-rooms, concealed wiring, mosaic or tiled dado in bathrooms, flush doors.
V	Roof	:	R.C.C.
	Floor	:	Superior mosaic, marble over at least 50% of carpet area of cement mortar with lime or cement plaster.
	Walls	:	Brick in lime.
	Others	:	Bath-rooms, etc., as in IV, plus wood panelled walls, air-conditioning ducts, false ceilings, substantial use of ornamental stone facing.
VI	Industrial sheds with sheet roof erected on pillars but without walls.		

NOTE : The type of construction of a building will be determined with reference to the features given above. The preponderance of features of a given category will determine the classification of the building in that category.

Examples for calculating property tax on objective criteria:
Basic Tax 50 paise per sq. ft.
Surcharge 10 paise per sq. yd. on excess appurtenant land.

Example I

Carpet Area		Rs.	
1000 sq. ft.	Basic Tax	500	
Extras :			
	L-II 20%	100	
	C-III 50%	250	
	U-I 10%	50	
	B-III 20%	100	
		1,000	per year.
Owner occupied—rebate for residential building 25%		250	
		750	per year.

Example II

10,000 sq. ft.	Basic Tax	5,000	
Extras:	L-I 10%	500	
	C-II 20%	1,000	
	U-V 100%	5,000	
	B-II 10%	500	
		Rs. 12,000	per year.

Example III

9000 sq. ft.	Basic Tax	450	
	Surcharge	90	
appurtenant land of 1200 sq. yds.		540	
(Excess of 900 sq. yards).			
	Extras :		
	L-II 20%	108	
	C-III 50%	270	
	U-I 10%	54	
	B-III 20%	108	
		1,080	per year.

NOTE:

L—Location Category.
C—Type of Construction.
U—Nature of Use.
B—Age of Buildings.

The basic rate, surcharge and the extras are purely illustrative.

(C) *Nature of use*:

I Residental—residences, hostels, guest houses.
II Public Utility—water works, electricty, Gzuernment effices, etc.
III Recreation—clubs, associations,
IV Commercial—shops, restaurants, warehouses, godowns.
V Industrial—manufacturing, propcessing, packing operotions.
VI Cinema Theatres—Airconditioned Rs.—per seat capacity.
Non-airconditioned Rs.—per seat capacity.
Hotels—Special rates based on room tariffs and area of common facilities like restaurants, shops, etc.

(D) *Age of building*:

I Above 40 years.
II Above 30-40 years.
III Above 20-30 years.
IV Above 10-20 years.
V 10 years and below.

Plinth area: Covered varandahs, corridors and balconies will be included in the plinth area. Open courtyard, verandahs, sit-outs will be excluded from plinth area.

COMMENTS

NIRMALA BANERJEE

Ramakrishna is entirely justified in saying that the present-procedure on the basis of a notional fair rent is indeed arbitrary ; it does leave too much discretion in the hands of the assessors who become susceptible to corruption. One has all sympathy in his quest for an 'objective' basis for the tax. I feel, however, that he has been altogether unsuccessful in providing an acceptablc alternative for the 'rental value'. He has started with a measure objective enough, viz., the square-feet plinth area of each housing unit; but he immediately modifies his criterion by devising a set of surcharges based on qualities such as location, type of construction, age of building, etc. He is perfectly right in doing so because plinth area catches only a small aspect of the desirability of a housing unit. If we were to ignore other aspects, this would lead to serious distortions. A tax based on area alone will put the same burden on housing units which are otherwise totally unequal. By adding these further considerations, one is aiming at reaching a kind of grouping of

housing units into some kind of 'equal' categories. Equal in respect of what? An equal set should, on the one hand, roughly include people of similar abilities to pay and, on the other, provide similar levels of satisfaction. Then alone it would be an alternative to a rental basis of property tax.

To elaborate, firstly, there is no reason to believe that any list of such criteria will either exhaust the possibilities that affect the desirability of a property or together manage to rank housing units according to their relative attractions. There is no simple way, in natura, to rank between locations, facilities, design and fittings or the airness or lightiness of different apartments in a large city growing over a long period. It may at best be possible only in a totally planned, officially built city, like Chandigarh, but never in a metro, like Calcutta or Bombay, where land use and associations have developed over time as per a complex of variables. Secondly, given that any method of categorising properties by a given criterion can at best be a very broad approximation, then such system of discrete surcharge rates cannot but be regressive. For each criterion, it can only refer to the basic minimum level of a certain characteristic for inclusion in each category. It cannot take into account the possible variations within a range. For example in considering the type of construction, all properties with polished floors would be in one category regardless of whether the floor is black marble or just plain cement tiles. Similarly, for location and so on. Therefore, within each category the rate would be regressive till it reaches the next slab where it will suddenly jump up to a higher level again to become increasingly regressive within that next range, This point is highly relevant in any society where incomes can be as widely skewed as in India and there is reliable evidence that real estate is very much a deposit of black money.

Thirdly,—and this is the most important criticism of Ramakrishna's attempt—there is the basic problem of a composite criterion. Whenever we have to take account of several aspects, the resultant criterion is an index, arrived at by weighting those several aspects to give a single measure. Even if Ramkrishna does not suggest such a single measure, his method would ultimately give us for each housing unit a unique rate. To be at all sensible, the ranking by these rates should mirror the relative desirability of all housing units. If now the relative rates for each category of each criterion are altered somewhat—and there is no special sanctity about one such set rather than another—then the new ranking of rates would implicitly define a new ranking in order of desirability. In an attempt to locate a set of objective criteria, we are necessarily thrown back to an arbitrary valuation of the relative desirability of housing. For example, suppose we are comparing a new but badly-built house with an old but well-built house. At Ramakrishna's rates they will be ranked in a certain order. A slight change in the surcharge

rates in respect of age can reserve this ranking although the relative desirability for the occupants remains unaltered. This arbitrariness is inherent in this procedure unless we have a cross-check, i.e., the rates correspond in some sense to an independent criterion of desirability, such as the relative rents they would fetch on the market.

Moroever, for any system of progressive taxation, the rate of progression must be related to some clearly measureable aspect, such as, income, wealth or consumption. In the housing market, none such measure is available except for their rental or capital values. For example, suppose we assume that given Ramakrishna's various criteria, a property superior in one aspect is also superior in all other aspects, i.e., the better-built house is in more desirable area and is younger. Even then the problem remains: and by what numerical amount is this superior to the one next in rank? What 'objective' criterion could supply the answer, unless it is the potential rent that such a housing unit would fetch in the market.

Insofar as Ramakrishna's rates are not obviously outrageous, they are, I suspect, founded on a set of implicity rental values. To pose such a system as an alternative to the rental value basis is misleading, hiding its arbitrariness under cloak of objectivity. But there is merit in his proposal—provided his various criteria are used not to supplant but to supplement the existing system of assessment on rental value. The defects of this system are many and obvious and some criteria as suggested by Ramakrishna can be used from time to time to lay down guidelines for assessing officers in order to temper these defects; but it is no use denying that these guidelines for each city can only be arrived at by familiarity with the rental market there, however, imperfect it may be.

In conclusion, it is easy to find objective criteria, but is very difficult to find appropriate ones. Moreover, a multiplicity of criteria in such a context has to be resolved by the construction of a single criterion which takes account of the multiple aspects. The rental value provides such a construction of the various aspects relevant to the issue; where it fails to do so because of market imperfections, it is easier to correct by taking into account specific aspects rather than trying to replace it by another. □

Site Value Tax, Urban Development and Land Prices

K.T. AMMUKUTTY

VARIOUS TAX measures are in use in efforts to control the level of land prices and to moderate changes in them. Site value tax is recognised as one of the most effective measures towards this end.[1] Site value tax (SVT) is a form of property tax (PT) under which value of the land alone is taxed. The rationale of SVT is that increases in the land values are attributable to public investment in developing the area and not due to an individual's effort. Therefore, society should capture in taxes a part of the socially created value.

Property tax is the single most important source of revenue in local finance and will continue as a major revenue source. Almost all the taxation enquiry committees[2] have gone into the question of the basis of PT. Yet the basis of PT continues to be a matter of controversy.

The significant differences between PT as it is levied now and SVT as it is proposed are :

—PT is levied mainly or wholly on man-made capital
—SVT is levied on land
—The weight (rate of taxation) adversely affects the quantity and quality of man-made capital
—The quantity of land which is created by nature 'does not rise or fall under the weight of SVT'[3]
—PT favours old over new because PT rockets upward when the new (rentals on new buildings or houses are likely to be higher) succeeds the old

[1]Roger S. Smith, "Land Prices and Tax Policy: A Study of Fiscal Impact" *American Journal of Economics and Sociology*, Vol. 33, No. 1, Jan. 1974.

[2]*The Local Finance Inquiry Committee*, 1951, *Taxation Enquiry Commission 1953-54. Committee of Ministers* constituted by Central Council of Local Self Government, 1963 and a host of other Committees at the State Level.

[3]C. Lowell Harris, "Property Taxation: What's Good and What's Bad About It", *American Journal of Economics and Sociology*, Vol. 33, No. 1, Jan. 1974.

—SVT is neutral because renewal does not change land value
—PT encourages holding land for speculative purposes
—SVT forces land utilisation to the maximum limit as the tax bill increases with the increase in economic rent of the land.[4]

Several writers have examined the possibilities of substituting PT by SVT.[5,6]

PROPERTY TAXATION IN DELHI

A brief description of PT as it is levied by Delhi Municipal Corporation (DMC) appears appropriate. The PT consists of a general tax, scavanging tax, water tax, and fire tax—all assessed on the rateable value of land and buildings. Rateable value of any land and or building is defined as the "annual rent which such land or buildings might reasonably be expected to let from year to year less a sum equal to 10 per cent of the said annual rent which shall be in lieu of allowances for cost of repairs and insurance and other expenses, if any, necessary to maintain the land or building in a state to command that rent". The rateable value of any land which is not built up, but can be built up, is fixed at 5 per cent of the 'estimated capital' equal to the paid out cost of the land.

In practice, while arriving at the annual, rateable value, deductions in respect of movable assets, like, fan, geysers, etc., are also permitted. Rate of tax currently applicable is on a sliding scale, progressively moving upwards from 10 per cent to 30 per cent.[7] Hence higher the rent, higher the rate of tax.

The purpose of this paper is :

—to propose a system of SVT in the place of PT system as it is now applied and to compile a hypothetical structure of tax liabilities under it, and
—to investigate the possibilities of using SVT as a tool for urban development and renewal.

[4]Dale Bails, "Two Municipal Revenue Sources Contrasted: The Land Value Tax and the Property Tax", *American Journal of Economics and Sociology*, Vol. 33, No. 2, April 1974.

[5]E.J. Neuner, D.O. Popp and F.D. Sebold, "Impact of a Transition to Site Value Taxation on Various Classes of Properties in San Diego", *Land Economics*, Vol. L. Number 2, May 1974.

[6]D.O. Popp and F.D. Sebold, "Redistribution of Tax Liabilities under Site Value Taxation, Sen Diago County", *American Journal of Economics and Sociology*, Vol. 31, No. 4, October 1972.

[7]Delhi Municipal Corporation, *Budget Estimates of 1980-81*.

The role of SVT is proposed to be judged by examining whether it :

—helps to increase the supply of dwelling units,
—discourages holding land for speculative purposes, and
—checks abnormal increase in land prices.

The study is confined to New Delhi South Extension (NDSE) I and II for the year 1973-74. The data and information used in the study were collected from the Office of the Deputy Assessor and Collector, New Delhi South Zone, and the Department of Town Planning of the DMC.

There are 702 properties in NDSE I and 611 in NDSE II. Through a systematic random sampling procedure, without stratification, a ten per cent sample of these properties, 70 and 61 respectively, were selected for the study. All the properties in NDSE II and all except three in NDSE I are classified as residential in the 'Inspection Register'. In respect of the sample properties, information on annual rental value of each property, total tax levied on sample properties and the nature of occupation—self-occupied/let-out—was gathered from the Demand and Collection Register and Inspection Register. Aggregates of all tax levied on all properties in NDSE I and II respectively was also gathered from the same source. Data on deductions claimed on individual properties was not readily available. Therefore, discussions were held with the officials of DMC. In the light of these discussions 20 per cent and 10 per cent respectively were deducted from the annual rent of self-occupied and let-out properties to arrive at the rateable value (RV).

The RV of each individual property was thus computed. Using the schedule of taxes applicable for the year 1973-74, taxes were then calculated on each property. For NDSE I the taxes thus computed on 70 sample properties were found to be 10.05 per cent of the total taxes levied on all properties assessed for the year. This indicates a high degree of homogeneity in the RV of individual properties. Also, taxes estimated at Rs. 100,734 were found to be quite close to what was actually levied, Rs. 99,586. This closeness between the actual and the estimate proved that the assumption made to allow for deductions claimed by assessees was also close to the actual.

This kind of an exactness was not found in the case of NDSE II; estimated taxes accounted for 13.44 per cent of total taxes levied on all properties; taxes actually levied on 61 sample properties amounted to Rs. 151,275 against estimated taxes, Rs. 138,071. The heterogeneity in the RV of individual property in NDSE II was very wide.

Having given an account of the tax liabilities under PT currently levied and estimated on the basis of 10 per cent sample properties, the next step is to compute the hypothetical tax liabilities under the proposed

SVT. For working out the SVT, the following information is necessary.

—the capital value of land on which the tax would be assessed, and
—the rate of SVT to be applied.

With respect to capital value, the current practice is to take 5 per cent of the actual paid out cost of the land in arriving at RV if it is an unbuilt land. In the case of built-up land, RV is equal to annual rent less permissible deductions from it for maintenance, etc. Since one purpose of the SVT is to *hasten building activity*, it is necessary to shorten the amortisation period for land. For the purpose of this study therefore, the RV for land is taken at 10 per cent of the *current market value* and it is called the assessable value of land (AVL) to distinguish it from RV. It is now clear that AVL will be higher than RV because :

—amortisation period is 10 years against 20 under PT, and
—the basis is current market value of land and not paid out cost.

The AVL thus computed will be the basis for assessing tax on both built and unbuilt land.

With respect to the rate of SVT two alternative procedures are employed :

(*a*) The rate of SVT per sq. yd. is calculated with a view to ensure that the amount of revenue now generated by PT is secured; and
(*b*) In the second case, SVT is computed on per unit value (instead of per sq. yd.) of the assessable value of land and made equal to the current rate of PT.

Given the value of land as exogenously determined by the market, total tax receipt from the proposed SVT is estimated.

Under Alternative A, the task is to ensure a tax revenue equal to the current, PT is obtained for the proposed SVT. The total PT levied on sample properties in 1973-74 in NDSE I and II were Rs. 99,586 and Rs. 151,275 respectively.

Annual rental value being the basis of PT on built-up land, the present system does not distinguish between plots of land located in different parts of the locality. For SVT, it is necessary to group plots into categories according to their locations inasmuch as the market value of land varies depending on the frontage, depth, size and location. On the basis of a market survey three broad locational features were distingui-

shed both for NDSE I and II; (1) the plots facing the main road (hereafter referred to as high value plots); (2) plots facing the slum (referred to as low value plots); and (3) the remaining plots (referred to as medium value plots). Sizewise distribution of sample properties under each location category is given in Table 1.

TABLE 1 SIZEWISE DISTRIBUTION OF PLOTS

Size groups (sq.yd.)	*Number of plots*	
	NDSE I	*NDSE II*
Medium value plots		
Less than 200	4	1
200	34	6
More than 200	2	—
250	10	26
More than 250	5	6
500	—	10
More than 500	1	3
1000	—	5
TOTAL	56	57
Low value plots		
Less than 200	5	—
200	—	3
More than 200	3	—
250	3	—
More than 500	1	—
TOTAL	12	3
High value plots		
550	1	—
800	1	—
1000	—	1
TOTAL	2	1
GRAND TOTAL	70	61

Layout plan of NDSE I and II drawn to scale was obtained from the Town Planning Department of DMC. Information on size of each sample plot as well as the entire area was available from this map. The requisite SVT rate per sq. yd. was calculated for the three locational

categories of plots in NDSE I and II. The total revenue generated amounted to Rs. 100,584 against Rs. 99,586 in NDSE I and Rs. 151,565 against Rs. 151,275 in NDSE II. The minor difference between the equal revenue SVT and the PT currently levied is due to rounding off errors (Table 2).

TABLE 2 RATEABLE VALUE, ASSESSABLE VALUE, PT AND SVT

	NDSE I *Rs.*	*NDSE II* *Rs.*
Estimated Rateable Value	571,762	789,440
Estimated property tax	100,734	138,071
Property tax actually levied	99,586	151,275
Equal revenue site value tax under Alternative A	100,583·85	151,565
Site value tax under Alternative B	116,833	260,723
Assessable value under Alternative B	699,547.5	1,238,287.5

The first step under Alternative B was to obtain the market value of each sample property in NDSE I and II. The prerequisites for this were :

—area of each sample property, and
—prevailing market price of land per sq. yd.

Information on the area of the sample properties was available from the layout plan referred to earlier.

If a free and efficient real estate market were in operation, the market price of unbuilt land actually transacted between sellers and buyers would have been easily available. It was, however, found out that although market mechanism was very much in operation, it was camouflaged, so that the value of any property appearing in the regular instruments of sale did not represent (was lower than) the true market value because buyers wanted to accommodate unaccounted (black) money and sellers wanted to generate it. It thus became necessary to consult some real estate agents/brokers to obtain the true prevailing price of unbuilt land.

The price of unbuilt urban land for the three categories of plots in NDSE I was different from NDSE II. The difference is attributed to the earning capacity of sites in the two areas. As the information on prices was obtained from a few real estate agents/brokers, the mid values of the prices per sq. yd. were used for purposes of computation. The capital values of sample properties were obtained by multiplying the mid values of the respective high, medium and low prices by the

areas of plots falling in each category. The total capital value of sample properties came to Rs. 6,995,475 and Rs. 12,382,875 respectively for NDSE I and II.

As the amortisation period is taken at 10 years, 10 per cent of the capital value is to be assessed for purposes of SVT. When the currently prevailing schedule of PT rates (moving upward from 10% to 30%) are applied on the AVL, the SVT liabilities came to Rs. 116,833 for NDSE I and Rs. 260,723 for NDSE II. These tax liabilities are higher than the PT levied for the same year by 17.32 per cent in NDSE I and 72.35 per cent in NDSE II (Table 2). The reason for this wide divergence between the actual levy and the estimated SVT in NDSE II is discussed below.

The Master Plan of Delhi had anticipated NDSE I and II to attain a gross density of 100 persons per acre by 1971. What was actually obtained was 122 persons per acre in NDSE I and 67 persons per acre in NDSE II.[8] A density lower than envisaged resulted in a denial of dwelling units to the community. This departure from the laid down density norm resulting in under-utilisation of land would automatically be penalised under an SVT system. Low density and the resulting style of consuming space has a social cost and, therefore, justifies a higher tax burden as a disincentive.

This method of applying average price per sq. yd. of a category of plots to all plots is liable to the criticism that "prices at which each piece of land would be transacted would be decided by the present value of net returns to each set of buyers and sellers."[9] Although it is necessary to find out the price of each piece of land for practical purposes, in an exercise of this kind, some form of approximation was considered appropriate.

SVT : PROS AND CONS

If any municipality adopts SVT system, it would be necessary to devise an acceptable and efficient basis for determining capital value of land, the period of amortization and, therefore, the AVL and the rate of tax. It would also be necessary to set the capital value at such a level that the owners of unbuilt land would not be tempted to transfer their lands to the municipal authorities.

The second objective of this paper is to use SVT as a tool for urban development and renewal. The main argument in favour of taxing site value is that it does not impair the economic incentive for making more productive use of land. Stretching this argument one step further it is

[8] *District Census Hand Book*, Delhi 1971, Town & Village Directory.

[9] Nirmala Banerjee, *Problems of Taxing Urban Land in CMD*, CMPO Fiscal Section (unpublished)

held that "if land is taxed to reflect its most productive use, such taxation can be employed to encourage the use of idle land and to put under-utilised land to optimum use".[10]

A comparison of tax liabilities under PT with equal revenue site value tax and with SVT under Alternative B showed that majority of owners will have to pay higher taxes.

	NDSE I		*NDSE II*	
	Equal revenue SVT	*SVT under alternative B*	*Equal revenue SVT*	*SVT under alternative B*
Percentage of owners whose tax liabilities will be higher	67.1	74.3	67.2	80.3

An indepth analysis threw up the following results:

—Owners of vacant plots are most adversely affected because instead of paying a nominal sum as tax under PT, they would pay tax equal to the amount that would be paid by the owner of any property of the same category and size.

—The second group of owners who would be affected adversely are those who have not built houses on their plots up to the optimum permitted level.

—Owners of those properties which have a higher ratio of the value of building to land (RV higher than AVL) would enjoy a tax saving.

These findings offer sufficient proof to the fact that SVT system encourages more intensive use of land because when a person pays a tax on the full economic value of a property, "he would want to get the money's worth" and not leave the property idle or only partly-used.

The next question is, would SVT positively encourage house building or fuller utilisation of land? In order to answer this question, investment required for building a house and the discounted cash flow (DCF) rate of return that the investment would yield have been estimated with the following assumptions:

—consequent on the change over from PT to SVT, the present owner of the land himself builds the house;

[10]George E. Lent, "The Taxation of Land Value", *International Monetary Fund Staff Papers*, Vol. XIV, 1967.

—there are three sizes of plots: 200, 250 and 300 sq. yds.;
—plots are built up to the maximum permissible limits, *i.e.*, $2\frac{1}{4}$ floor on the first two and $3\frac{1}{4}$ floor on the third;
—three sets of construction costs, depending on the type of material used, were considered;
—construction period is 2 years and the life of the building 50 years;
—houses when completed, are let out at the prevailing market rates;
—10 per cent of the gross annual rent is earmarked for maintenance from the third year of occupation onwards;
—tax liability under PT and SVT system is separately applied, keeping the rate of tax the same as under Alternative B to arrive at the net DCF rate of return.

DCF rate of return is presented in Table 3.

TABEL 3 DISCOUNTED CASH FLOW RATE OF RETURN AT THREE DIFFERENT LEVELS OF CONSTRUCTON COST

	300 sq. yd. plot $2\frac{1}{4}$ floors		*250 sq. yd. plot $2\frac{1}{4}$ floors*		*200 sq. yd plot $2\frac{1}{4}$ floors*	
	SVT	*PT*	*SVT*	*PT*	*SVT*	*PT*
NDSE II						
(*a*)	11.34	9.34	10.43	9.17	4 45	9.42
(*b*)	12.22	10.47	11.10	10 21	12.34	11.21
(*c*)	13.92	12.96	13.23	12.24	14.02	13.17
NDSE I						
(*a*)			9.52	7.93	10.10	8.93
(*b*)			10.53	9.45	11.24	9.64
(*c*)			12.61	10.49	13.44	11.33

Vacant plots when built up and rented out would earn between 9.92 per cent and 14.02 per cent under SVT (against negative return when unbuilt) and 7.93 per cent and 13.17 per cent under PT. Under the SVT system it is to the advantage of the owner to build up vacant land as quickly as possible and build it to the maximum permissible limit. It is also to be taken note of here that the interest of the owner coincides with that of the community. Building up a plot to the maximum ensures higher return to the owner and provides more dwelling unit to the community. (The rents applied in this exercise are the prevailing market rates collected through real estate agents/brokers.)

The absolute necessity of increasing the number of dwelling units can be gathered from the following figures. Delhi receives about 100,000

emigrants every year and its population is estimated to reach around 7 million by 1981. It is reported that in Delhi about 200,000 people go to sleep every night without a roof which they call their own. Another 4,200,000 live in sub-human conditions; 1,300,000 of them in what the government machinery itself has described as 'declared slums'. If the average family size is taken at 6 against 5.2 as per 1971 census, to accommodate the 7 million people, the city needs over 1.16 million dwelling units. The shortfall on the basis of old statistics and even accounting the jhuggi-jhompris in, stands at 0.35 million dwelling units.[11]

Under the present PT system, the RV of a vacant plot of land is 5 per cent of the cost of the land and PT is levied on it. If no income has accrued during the years under assessment, the owner can claim deduction from the nominal PT levied. Under these circumstances, he can easily become a speculative land holder without incurring high carrying cost.[12] As carrying cost is heavy under SVT (vacant, partly built and fully built-up plots are liable to pay the same amount as tax), it ceases to be profitable to hold land for speculative purposes. By increasing the supply of land available for development, it should dampen land prices.

The substitution of SVT for PT would thus induce an increase in the supply of dwelling units in two ways:

—it would hasten construction on vacant plots; and
—better return on higher buildings (at least up to 4 floors till which level lifts are not required) make the construction of such buildings more attractive.

As per building regulations at present only those individual plots which face main roads (80 feet and more wide) can be built up to 3½ floors.

In order to restrict the urban sprawl it seems necessary :

—to raise the gross density from the present 120 persons per acre, and
—to allow individual plots to be built up to 4 floors.

because urban sprawl multiplies cost of almost all municipal services. Most municipal services are operations whose unit costs not only fall as the patronage rises, but also fall as a result of close congregation of customers. Economics of density are, therefore, in the interest of

[11]H.B. Schechter and Terric Gale, "Property Tax Inequities and Remedies: A National Overview", *Urban Land*, Vol. 30, No. 11, December, 1971.

[12]*The Hindustan Times*, August 7, 1980.

municipal authorities as well as that of the society.

The DCF rate of return on investment in housing does not take into account income tax on income earned from rents. Income tax is leviable on income from other sources also. But a difference would arise if a house is constructed, with borrowed funds. Net income from a rented house, irrespective of the method of financing construction, would be added to income from other sources. Net taxable amount is arrived at by deducting from gross rent, municipal and state taxes, concession to newly constructed houses, one-sixth of the balance towards repair and maintenance, interest on loans, rent collection changes, fire insurance premium, etc. If it is assumed that a person with a taxable income of Rs. 20,000 (excluding income from house), constructs out of his savings a house and rents all floors, his tax would go up by Rs. 5,500 to Rs. 12,000 depending on whether his plot is 200, 250 or 300 sq. yds. and his house is $2\frac{1}{4}$ or $3\frac{1}{4}$ floors. If the house is financed out of a loan, his tax liabilities increase only by less than one-tenth of the amount given above. But his interest liabilities (@ 9%) would vary between Rs. 11,000 and Rs. 25,000. The result is, return on housing undergoes a downward revision from what was given earlier.

Investment in housing is motivated by both expected return on investment and expected capital appreciation. The value of the land as well as the building has, so far, been steadily appreciating. The SVT system, it is claimed, would dampen increases in land prices. It may also tend to reduce the attraction of capital appreciation in house building. It is, however, difficult to quantify the extent. Thus one finds that while SVT system would establish the *necessary fiscal incentive* for house building, this may not prove adequate by itself if the economic incentive for investment in housing does not improve. Since house building is left mainly to private initiative, it appears necessary to take some steps to improve the rate of return in housing to attract more private investments.

The fact that SVT by itself does not provide sufficient economic incentive for house building, does not detract from its worth. It has been recognized that the simplistic assumption that a small number of policy instruments can solve the urban housing problems, even in the limited sense of improving the housing condition of the poor and rapidly expanding the overall supply of housing in urban areas is clearly false. A wide range of policies, new and traditional, each of them having a modest impact on the underlying problems, seems necessary if there is to be a massive overall impact.[13]

Construction cost has been rising exorbitantly primarily due to sharp increases in building materials. It was found earlier that when

[13]Dick Netzer, *Economics and Urban Problems: Diagnosis and Prescriptions*, Basic Book Inc., New York and London, 1970.

house is constructed out of borrowed funds, interest liabilities absorb anything between one half to two-thirds of the annual gross rental income from a house. And this form of finance accounts for the major share of house building activities. An important direction for improving the rate of return from housing lies in the reduction in the cost of construction through standardisation of building materials and improvements in construction technology.

CONCLUSION

To conclude, for developing countries land tax should concentrate on taxation of the site value. The justice of this policy is strongly defended because ownership of land is sought as a refuge from inflation. The diversion of capital to investment in land tends to accentuate the rise in land prices. There are several countries which have site value taxation to combat land speculation and to bring about development of land. Korea, it is stated, levies a 50 per cent tax on unearned increments on land to reduce speculative activities. To bring about development of land, Buones Ares levies a tax of 5 per cent to 10 per cent on vacant land in contrast to 0.6 per cent on built up land. Some other countries which have switched on to site value taxation are Australia, New Zealand, Kenya, Tanzania, Greece, Iraq, Denmark, Trinidad, etc. Further, as Mason Gaffnay puts it, "Capital has loose feet; land on the other hand has only square feet; you can tax the very all out of land and not one square foot will get up and walk out of the town."[14]

Some of the American cities which have switched over to land, value tax are South Field (Michigan) and Pittsburg. Building industry is stated to be flourishing in these cities and "land values have increased, but at a moderate rate only".

Experiments with SVT in several cities have shown that the tax is economically sound and practically feasible. The change-over from PT to SVT can be gradual, spreading over 5 to 10 years, during which period the tax on improvements is reduced gradually and on land is increased so that hardships are reduced.

If land values are assessed correctly and reassessed at regular intervals and land taxation is properly structured and administered, it would provide a fairly stable and predictable[15] source of revenue to the local body which would in addition have a tendency to increase with economic development. □

[14]Mason Gaffnay, "What is Property Tax Reform?", *American Journal of Economics and Sociology*, Vol. 31, No. 2, April 1972.

[15]United Nations, *Manual of Land Tax Administration including Valuation of Urban and Rural Land and Improvements*, New York, 1968.

Area Basis of Valuation for Property Tax : An Evaluation

GANGADHAR JHA

THE EXISTING property tax system in India has been subjected to increasing criticism in recent years and it is now advocated that the property tax must look for an alternative base. Dissatisfaction with the existing system is based on the grounds that the determination of tax base—Annual Rental Value (ARV)—as also periodical change in it suffers from built-in deficiencies, like, substantial scope for creeping-in of subjective elements and discretion which create further built-in scope for corrupt practices. The system is not elastic to service requirements, the increasing service costs, and is not properly related to demand for services emanating from different land uses. Moreover, the ARV as the base of this tax has lost its relevance because of old tenancies and rent control legislations which have put a severe limitation on the growth and level of assessed value. A recent judicial pronouncement of the Supreme Court[1] requiring the civic authorities to assess the tax on the basis of fair rent as determinable under the relevant rent control Act irrespective of whether a fair rent has been determined by a rent control court or not, has put additional constraints on the existing system as an important source of revenue.

Other arguments against the existing system relate to broader issues of rising land values which it is unable to keep pace with and its inability to serve any urban development objective. Thus it is neither serving as a tool of revenue mobilisation for meeting the increasing service requirements, nor as an instrument for promoting the land use objectives. The net result is that the existing system has become an inefficient and inequitous source of revenue.

As the inadequacies of the existing system emanate mainly from its tax base, the maladies could possibly be removed in one stroke by changing over from ARV to capital value (CV) system. But here also one comes across almost the same problem. Firstly, it is argued that

[1] *Dewan Daulat Rai Kapoor* vs. *New Delhi Municipal Committee*, AIR 1980 SC 541.

quantification of a host of 'external' and 'uncontrollable' factors influencing the CV would meet insurmountable problems and may ultimately end up on account of a number of subjective elements. Secondly, the comparative sale information may be misleading in view of under-statement of sale value. Thirdly, the diversified assessment methods currently in vogue in the countries having the CV system hardly make it convincing if the valuation mode is really based on CV *per se*[2]. Attempts have been made even under the capital value system to evolve ways and means of objective valuation which could be free from subjective considerations and could take into account the host of variables affecting the values of land and buildings. Cartagena (Columbia), for example, assesses land on the basis of 'base unit value' obtained after a most elaborate exercise spread into six stages and based on physical factors including land-use, accessibility, soil conditions, slope of the ground, etc.[3] The value of building is assessed on the basis of points attributed to building characteristics, like, materials, finish, state of conservation, age and floor area.

Likewise, dissatisfaction with the ARV system has culminated in some positive suggestions to free property tax from the deficiencies and resurrect it by making it more objective, elastic and equitous source of revenue for the civic authorities. This paper is an attempt to examine the suggested alternative modes of reform for comprehending their revenue, distributional and allocation objectives and operational problems, if any.

AREA BASIS OF VALUATION: PROPOSED ALTERNATIVES

An alternative to the ARV System was first hinted at in a study of the Calcutta finances by Kapoor[4]. Although the details of the alternative is lacking in this study, it, nevertheless, indicates the broad framework within which the details could be conceived. Accordingly, the tax on ARV is to be replaced by seperate land tax and building tax on the basis of area measurements. The tax rate is envisaged to vary according to different zones in which the city is to be divided for switching over to the new system and also according to location of properties at ideal points, like, major roads, parks, and so on. Additional cess on non-residential uses and surcharges depending upon

[2]Roy W. Bahl (ed.), *The Taxation of Urban Property in Less Developed Countries*, The University of Wisconcin Press, Madison, Wisconcin, 1979, p. 4.

[3]Johannes Linn, *Urban Public Finance in Developing Countries: A Case Study of Cartagena, Columbia*, Urban and Regional Report No. 77, World Bank, 1975, Mimeographed.

[4]R.M. Kapoor, "Finances of Calcutta Corporation: Problems and Prospects", *Nagarlok*, Vol. IX, No. 1, January-March, 1977, pp. 53-74.

zonal characteristics are to be imposed so that property tax also serves urban development objectives. The slab system is to be based on the permissible Floor Area Ratio (FAR). As the population density is directly related to costs of civic services, the tax rates are proposed to be adjusted constantly according to density changes.

The system is thus designed with three broad objectives in mind. Firstly, it is to be an important source of increasing revenue for meeting the enhancing costs of civic services. Secondly, it is also to serve as an effective instrument of promoting the desirable land-use and FAR in the various zones of the city. This is evident as the tax rate is to vary not only according to zonal variations and land-uses, but also according to the different slabs of FAR. Thirdly, it will bring about an "extreme degree of simplification of assessment procedure" by doing away with periodic assessment and "basing the first assessment on data furnished with the building plans, and revision of the same only when building modifications are carried out."[5]

Will this system, when operationalised, be able to fulfil the intended objectives? As for the first objective of making the property tax an elastic source of revenue, the third objective seems to contradict the first. Dispensing with periodic assessment would mean freezing the valuation at the bench mark level, leaving hardly any element of elasticity to the tax. Moreover, the entire exercise would become a single-shot-exercise reducing the role of the local authorities to the mere collection of taxes without having anything to do with increasing the yield from this tax. This would be then as good as a state tax devoiding the local authority of its initiative.

Regarding its second objective of serving as a tool of promoting urban development, it is worth noting that imposition of tax on land and buildings separately with a slab system related to achieved FAR in buildings seems to be an amalgamation of the area-based tax and a site value tax. It is an acknowledged weakness of the site value tax that it does not help the full utilisation of land in old built-up localities where buildings happen to be old and were not initially constructed according to a prescribed FAR. Therefore, the tax imposed on properties not having the desired FAR may prove to be a penal tax, ultimately resulting in transfer of property to the hands of rich sections of society. This would then undermine the distributional objective of development and would raise a valid question; 'development for whom?' However, in the newly planned localities, this would be able to serve the objectives of urban development and land-use control.

The proposed alternative framework, though, urges to delink the property tax from ARV, it is mute regarding the new base to be adopted.

[5]R.M. Kapoor, *op. cit.*

What shall be the basis of assessment of land and buildings in the various zones? The framework of the Calcutta study is lacking in details as it has not yet been concretised. A new system of valuation in a concrete form having operational details is found in another study of property tax in Madras.[6]

A STANDARD ZONAL RATE

The Madras study seems to have picked up the thread from the Calcutta study and has worked out the operational details of the proposed system. With a view to immunize the tax system from its susceptibility to subjective considerations and anomalies in valuation of properties of various types and sizes, as also to make it objective, simple to operate, and elastic, the rationalisation is proposed on the basis of 'objective indices'. Existing wide variation in rentals, property types and environmental facilities in various localities of a city and within the localities themselves, the study argues, makes it imperative to evolve a yardstick based on some objective indices. Thus, by using the qualitative and quantitative indices of rentals, area details, type of construction, level of facilities and types of neighbourhood, it proposes to arrive at a standard zonal rate for the different zones in which the city is proposed to be subdivided under the new system. Classification of zones is proposed according to physical and functional characteristics of the neighbourhoods. On the basis of zonal characteristics, size and type of buildings in each zone, a zonal rent per square foot of floor area is envisaged to be worked out which must reflect the market rent for the similar size and type of properties. Individual properties are then to be assessed in relation to this standard rate and deviation from this in terms of size and other indices.

The new system is thus to be based on the market rent (value) of properties in the different physical and functional zones of the city so that "*The range at variation in market value of a property* (per unit area basis) *within a homogenous zone is much less* compared to the range in market value of individual properties spread over the city and outlying area."[7] An element of progression is also proposed to be brought into the zonal rate on the basis of specific features of properties, *e.g.*, excessive floor area and luxury fittings. Substandard properties, like, slum, properties without basic municipal facilities, etc., are to

[6]Operations Research Group, *Property Tax System in Madras Urban Agglomeration—A Review of Existing System and Proposed Rationalisation* (A Study sponsored by the Madras Metropolitan Development Authority), ORG, Madras, December, 1979, (Mimeographed.)

[7]*Ibid.*, p. 23.

get proper discount. Unlike the Calcutta study, the Madras study envisages periodical revision to make the zonal rate up-to-date.

But starting off with an elaborate system of qualitative and quantitative indices for imparting objectivity to the system, it ultimately proposes only two measures of built-up area and land-use of the properties for determining the zonal rate in each homogenous zone. Inclusion of too many indices, it apprehends, may "tend to increase the scope of subjectivity and anomalies" from which the property tax must be immune. Having said so, it again envisages inclusion of a host of variables, like, land values, cost of construction and cost of living index for reflecting the increase in zonal rate. This is a conspicuous conflicting element in the proposal which needs to be resolved.

The rationale behind this alternative system is to capture, as far as possible, the market rent obtaining in a similar locality. The backbone of the system is to be the standard zonal rate. But, here again, one is confronted with the inevitable question : what will determine the zonal tax rate ? Market rent, of course. But then what will determine the market rent ? The suggested framework does not seem to be very clear about it. Although it says that composite indices of facility level and quality of neighbourhood go to explain the variation in market value (rent) of property in different zones, it does not explain how this variation is to be measured and on what basis. The problem ultimately boils down to getting sufficient evidence for determining the existing value—a charge usually levelled against the CV system.

A standard zonal rate in a homogenous zone is unlikely to withstand the judicial test. If the zonal rate is to vary with variations in different zones, there has to be a proper justification for it. A single zonal rate for all types of buildings even in the smallest homogenous zone may be at the most arbitrary, violating the principle of equality before law. The Kerala Building Tax Act, 1961, imposing the tax on buildings on the basis of plinth area was struck down by the Supreme Court on the ground that it was not based on rational classification of buildings on the basis of other features.[8] The zonal rate has, therefore, to be based on rational classification. The qualitative and quantitative indicators as suggested earlier, but abandoned subsequently, has also to be objective and likely to be gathered easily.

The scheme of zoning suggested in the proposed system seems to be based on physical and functional attributes of the localities rather than on concentric zones. In such a situation, inter-zonal variation in market rental value shall require greater justification. Moreover, even after zoning there will exist mixed land-uses in several pockets of different zones. Which zonal rate will apply to such incompatible land uses ?

[8]AIR 1968 Ker. 14, also AIR 1969 SC 378.

Such a situation would probably require to allow the property tax to play a regulatory role also by manipulating the tax rate.

A BASIC TAX AND EXTRAS ON AREA DETAILS

Another scheme to delink the property tax from ARV is found in a study arising out of Hyderabad experience.[9] The reform proposal is based on a rational classification of buildings according to simple characteristics. Calculations to work out the tax liability on the assessees are also very simple. It suggests imposition of a 'basic tax' on plinth area or carpet area of all types and uses of property, accompanied by a surcharge on the appurtenant land if it exceeds three times the covered area. In addition to these, it also proposes to impose additional rates of tax according to location, type of construction, nature of land-use and the age of buildings. For all these characteristics it proposes five or six gradations into which the buildings are to be classified according to their individual features. Thus, besides the basic tax based on plinth area and surcharge based on the excess appurtenant land, each building shall have to pay an additional amount, depending upon the grade to which it belongs on the score of its location, construction, land use and age. This is intended to provide an element of progression built into the system. One also finds in this proposal an elaborate scheme of various grades and weightage given to each grade for the purpose of imposing additional rate. The basic tax rate is suggested to be 50 paise per square foot of carpet area and surcharge as 10 paise per square yard. Owner occupied properties are to be given a rebate of 25 per cent on the basic tax and surcharge.

The scheme of things envisaged is thus simple and can, therefore, facilitate self-assessment. Other benefits of this new system are said to be minimisation of discretion exercised generally by the valuation officer, doing away with quinquennial revision and variation in tax by altering the basic rates and extras.

Many of these claims seem to be quite persuasive and the system itself appears to be simple to operate, except for a few refinements here and there. Bringing about clarity in determination of location and assigning of weightage to buildings on this score may be cited as a case in point. It is not clear, however, as to how the location of one building in one circle or ward can be differentiated and on what basis. There is generally a tendency in property values to decline as the distance from the city centre increases. Probably, therefore, the location has to be determined on the basis of concentric zones in the city and the location

[9]G.V. Ramakrishna, "Municipal Property Tax : A New Approach" (Published in this volume).

of individual properties on the types of roads and streets within that circle. The allowance, however, shall have to be given to run-down buildings and those located in slum areas. The system of concentric zone may not be possible to be utilized universally in each city or town and the particular spatial attributes in each case would require a different approach. A poly-nodal, poly-centric city, like Delhi would have to evolve the concentric zones around each node and centre.

The proposed system seems to be too much obsessed with the revenue moblisation objective, ignoring the allocational effects of the system. Taxation of newly constructed buildings at as high a rate as 50 per cent of the basic tax and surcharge may possibly result in adverse allocative effects. Conceptually such a tax may hinder the augmentation of housing stock. It would, therefore, be required to manipulate the rates from time to time. Likewise, weightages attached to various land-uses also shall have to be manipulated according to situations obtaing in each zone or locality within a city. If the policy, for example, is to deconcentrate non-conforming industries or uses from an area, the tax rate shall have to be enhanced to become penal in nature. But if the objective happens to be strengthening of the economic base of a backward town or depressed city, the rate shall have to be considerably brought down from 75 per cent, as suggested in the proposal, in order to promote setting up of manufacturing units. Distributional and allocation objectives may thus require a re-examination of weightages assigned to the various indicators. Property tax, thus, besides being a source of revenue mobilisation, must subserve the objectives of urban development as well.[10] Concern with revenue mobilisation itself must take into account rise in land values and should try to apportion only a part of it through taxation. This may even require to have variation in the basic tax and surcharges in different neighbourhoods.

Another reservation about this new system pertains to its enthusiasm to do away with the periodical revision of valuation. Although it proposes to promote elasticity in the tax system by merely "altering the rates of basic rate and extras", it is doubtful whether the initial valuation of buildings on the basis of area details would serve the basis of the proposed alteration in rate in years to come. Due to the dynamic forces of urban growth as also the elapse of time, properties are most likely to shift from one grade to another, especially on the scores of land-use and age. A once-for-all exercise may, therefore, prove to be irrelevant soon after.

So much about the proposed alternatives for the new system of

[10]Walter Rybeck, "Can Property Tax be Made to Work for Rather than Against Urban Developmenti"? *American Journal of Economics and Sociology*, Vol. 33, No. 3, July, 1974, pp. 269-72.

property tax based on area details. These proposals are still in a formative stage and have not yet been operationalised. Let us now turn to another system which has been operating on the basis of area details in Jakarta since 1966.

A TAX BASED ON INDEX VALUE

Although the property tax in Jakarta is based on rental value of land for all types of uses and improvement and commercial properties, the assessment of rental values is based on an Index Table wherein each property is cross-classified by the zone in which it is located, designated land-use for that zone, actual land-use of the property and the level of amenities provided.[11] For the level of amenities there exist three categories of infrastructure class determined by the Jakarta Planning Office, according to the streets having various levels of infrastructure. Division of Jakarta city into zones (four in number) and classification of zoned land-uses follow the Master Plan proposals. Among the various land-uses, residential use is again classified into high, medium and low areas according to quality.

Every property is given an index number according to zone, zoned land-use, infrastructure class of the street on which it is located and the actual land-use of the plot of land. The index number indicates the unit value of land. A look at the index values given on the basis of Index Table (see Appendix) reveals a decline in the values from the first zone (zone A) to the last zone (zone D). The values are the highest for commercial use, lower for industrial, public and residential uses and the lowest for recreational use.

The index values worked out on the basis of Index Table serve the basis for working out the assessed rental value of land. This is done by multiplying the index value by a multiplier which was increased from 4 in 1971 to 8 in 1974. Plots not located on public streets have a multiplier of 6. The rate of tax (5 per cent) is then applied on the rental value thus worked out which indicates tax burden per square metre. It is worth mentioning that the tax liability on each plot of land is varied by manipulating the multiplier, keeping the tax rate constant.

Improvements on commercial and industrial plots are taxed on the same basis of Index Table, multipler and tax rate. However, multi-storeyed buildings are assessed according to the number of floors added to it. Second floor is assessed at 75 per cent of the basic rate, third floor at 50 per cent, fourth at 25 per cent and the fifth and remaining

[11]Johannes F. Linn, *Urban Public Finance in Developing Countries: A Case Study of Jakarta—Indonesia* (Mimeographed), Urban and Regional Economics Division, The World Bank, May, 1976, Ch. VI; also see Roy W. Bahl, "The Practice of Property Taxation in Less Developed Countries" in Roy W. Bahl, *op. cit.*, pp. 9-47.

floors at 10 per cent of the basic rate.

The property tax system in Jakarta thus seemingly appears to be a very simple system. But its simplicity apart, the system suffers from several snags. Some of these pertain to the procedure adopted for preparation of the Index Table and others to the basic system of assigning of index values and the relevance of the Index Table itself. Assuming that procedural deficiencies may be overcome if there is a will to do so, let us examine some of the deficiencies inherent in the very system of values.

Linn observes in his study of this system that the assigning of index values in fact does not bear any relationship with actual land values prevailing in Jakarta.[12] It could not be even established as to what was the basis of devising the Index Table. The system of index values existing in Jakarta is not subserving any development or regulatory role also, which is evident from the index values given to commercial and industrial units operating in a residential zone. A commercial activity, for example, if located on a class I infrastructure street and in area zoned for commercial use in zone A (Refer to Index Table in the Appendix), gets a value of 200. If it shifts its activity to a residentially zoned area, it gets its value reduced to 150. But a residential use existing in a commercial zone is penalised by assigning a higher value to it. The tax system thus treats the domestic property holders in a disadvantageous manner *vis-a-vis* commercial and industrial property holders.

Another enigma of this system relates to preparation of tax table which indicates tax liabilities of the assessees. The tax burden is supposed to be worked out on the basis of values given in the Index Table. But the tax table as finally prepared in Jakarta does not bear any relationship with index values.

The system of valuation in Jakarta, therefore, firstly, does not bear any relationship with actual land values and hence the rentals. Secondly, it provides peculiar incentives and disincentives to various uses without any rationale behind it and thirdly, it is enigmatic as there does not exist any relationship between the index values and the tax burden.

CONCLUSION

In sum, there is now a better and wider appreciation of flaws in the existing system of property taxation in India. This appreciation has now channelised into positive urge to search for a new objective, elastic and simple alternative to the existing system. These still being in a

[12] Johannes F. Linn, *op. cit.*

formative stage are seemingly susceptible to pitfalls as is evident from the foregoing analysis. One can only hope that the current debate on the resurrection of property tax system will continue to gather momentum and would ultimately result in finding out of an alternative which could satisfy the canons of elasticity, simplicity, equity and economic efficiency. The present thinking must not be allowed to recede back to a state of inaction and slumber, as has been the fate of several useful debates on municipal taxation in the past.

Appen

INDEX TABLE FOR PROPERTY

		Zone A							*Zone B*						
Zoned Land Use→ / *Actual Land Use ↓*	*Infrastructure Class*	*Commercial*	*Industrial*	*Public*	*Residential 1 (High Quality)*	*Residential 2 (Medium Quality)*	*Residential 3 (Low Quality)*	*Open Land and Recreational Areas*	*Commercial*	*Industrial*	*Public*	*Residential 1*	*Residential 2*	*Residential 3*	*Open Land*
Commercial	I	200	160	160	150	120	100	+	170	140	120	100	90	80	+
	II	170	150	130	120	100	80	+	140	150	100	90	80	70	+
	III	140	130	100	90	80	70	+	110	90	80	70	70	60	+
Industrial	I	180	160	140	120	100	100	+	140	120	100	90	80	60	+
	II	160	130	120	100	80	80	+	130	90	80	90	70	50	+
	III	130	100	90	90	70	70	+	120	90	80	70	60	40	+
Public*	I	160	140	120	100	70	40	+	110	100	90	80	60	50	+
	II	130	100	110	90	60	35	+	100	90	80	70	50	40	+
	III	100	90	80	70	50	30	+	90	80	70	60	50	30	+
Residential 1	I	160	140	120	100	70	40	+	110	100	90	80	60	40	+
(High	II	130	110	100	90	60	35	+	100	90	80	70	50	30	+
Quality)	III	100	90	80	70	50	30	+	90	80	70	40	40	25	+
Residential 2	I	140	120	100	70	40	30	+	100	90	80	60	40	25	+
(Medium	II	110	100	80	60	35	25	+	90	80	70	50	30	20	+
Quality)	III	90	80	70	50	30	20	+	80	70	60	40	20	15	+
Residential 3	I	120	100	80	40	30	20	+	90	80	70	40	25	20	+
(Low	II	100	80	70	35	25	15	+	70	70	60	30	20	15	+
Quality)	III	80	70	60	30	20	15	+	70	60	50	20	15	13	+
Open Land	I	80	70	55	30	20	15	+	70	60	50	30	20	15	+
and	II	60	50	40	20	15	10	+	50	40	35	20	13	10	+
Recreational Areas	III	40	30	20	15	10	10	7	30	25	20	15	10	7	5

[1]This appears to cover mainly Banking, etc.

SOURCE : Johannes F. Linn, *Urban Public Finance in Developing Countries: A* The World Bank, May 1976, Ch. VI.

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APPRAISAL IN JAKARTA

Zone C							*Zone D*						
Commercial	*Industrial*	*Public*	*Residential 1*	*Residential 2*	*Residential 3*	*Open Land*	*Commercial*	*Industrial*	*Public*	*Residential 1*	*Residential 2*	*Residential 3*	*Open Land*
120	100	90	80	70	50	+	18	14	13	12	12	9	+
100	90	80	70	60	40	+	15	13	12	11	9	8	+
80	80	70	60	50	30	+	12	12	11	10	8	7	+
100	90	80	70	60	40	+	14	13	12	10	10	8	+
90	80	70	60	50	35	+	13	13	12	9	9	7	+
80	70	60	50	40	30	+	12	11	10	8	8	6	+
90	80	70	70	40	30	+	13	12	11	9	8	8	+
80	70	60	60	35	25	+	12	11	9	8	7	7	+
70	60	50	50	30	20	+	11	10	8	7	6	6	+
90	80	60	60	40	30	+	23	10	9	9	9	7	+
80	70	50	50	35	25	+	12	9	8	8	7	7	+
70	50	40	40	30	20	+	4	8	7	7	6	5	+
80	60	60	40	30	20	+	12	12	9	8	7	6	+
70	50	50	35	25	15	+	11	11	8	7	6	5	+
60	40	40	30	20	10	+	10	10	7	6	5	4	+
70	60	50	30	20	13	+	10	9	7	7	6	5	+
60	50	40	25	15	10	+	9	8	6	6	5	4	+
50	40	30	20	10	8	+	8	7	5	5	4	3	+
50	40	30	20	9	7	+	7	6	5	5	4	3	2
35	30	20	15	8	6	+	6	5	5	4	3	2	2
25	20	15	10	7	5	3	5	4	3	3	2	1	1

Case Study of Jakarta, Indonesia, (Mimeo.), Urban and Regional Economics Division,

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Indian Thinking on Property Tax Reform*

RAKESH MOHAN

PROPERTY TAXES form the major source of revenue for most local bodies in India. In general, it is levied more as a source of revenue than as an instrument for regulating land-use. It is then not surprising that there is an increasing level of concern expressed about its efficacy as a revenue measure since there has been increasing evidence over recent years that the property tax has not been a very buoyant source of revenue. The property tax must be the most unevenly administered and most maligned of all taxes but is also the most durable. It has financed the major part of municipal expenditures since the municipal councils were first established in Bombay, Calcutta and Madras in the early part of the eighteenth century. Yet, little is known about its overall impact, incidence and effects on resource allocation decisions. Most of the literature that can be found on the subject deals with aspects of :

(*i*) the basis of assessment,
(*ii*) inefficiencies in administration, and
(*iii*) exemption provisions.

There have been four major Central Government reports since independence which have investigated the local property tax in some detail :

1.	1951	The Local Finance Inquiry Committee (G.O.I., 1951).
2.	1953-54	The Taxation Inquiry Commission (G.O.I., 1955).
3.	1963	Committee on Augmentation of Financial Resources of Urban Local Bodies—generally known as the Zakaria Committee (G.O.I., 1963).

*The views expressed here are those of the author and not of the organisation to which he is attached.

4. 1966 The Rural-Urban Relationship Committee (G.O.I., 1966).

The curious aspect of these reports is that, apart from a few exceptions, they have reached the same conclusions and made similar recommendations over a span of almost twenty years; yet few of their major recommendations have been put into practice. Since 1966, there has not been another major national-level examination of the issue. There have, however, been a number of state-level Municipal Finance Commissions which have examined the financial requirements of local bodies in the respective states[1]. More recently, concern with the local property tax has again been brought to light with the publication of *A Study of the Resources of Municipal Bodies*, by the National Council of Applied Economic Research (NCAER, 1980) and a special issue of *Nagarlok* (July-September, 1980) on "Reforms in Property Tax". The NCAER study was sponsored by the Minisiry of Works and Housing which reflects official concern with the state of municipal finances. This study examined all sources of municipal finances. So property taxes formed only part of the study. This article attempts to examine the state of the art at the present time by reviewing these recent publications critically.

THE BASIC ISSUES

Given the wide variation in practices, rate structures and administration of the property tax among the states in India, there is often a tendency to concentrate on details of administration in discussions of the tax. It is, therefore, appropriate to delineate the basic issues at the outset. First, why have the tax and second, why be concerned about it? The main reason for its existence is obviously its capacity to produce revenues for local purposes. As the NCAER study points out, municipal bodies in India are not constitutional bodies but are formed by Municipal Acts enacted by the various state legislatures. Under the Indian Constitution, local governments fall exclusively within the purview of their respective State Governments. "The Constitution does not provide for a separate identity for local bodies with specific areas of operation powers and responsibilities" (NCAER, 1980, p. 2). However, by and large, local bodies have to provide necessary services, like maintenance of roads, water supply, sanitation, scavenging, sewerage, public health and primary education. The two main sources of revenue not preempted by the State and Central Governments are the property tax and octroi. With various national level commissions recommending the abolition of octroi, local bodies are likely to rely even more heavily on property tax.

[1]These states include U.P. 1969), Gujarat (1964, 1972), Andhra Pradesh (1971), U.P. (1974), Maharashtra (1974), Kerala (1976), Karnataka (1975); see NCAER (1980) for full references.

Given that the proceeds from the property tax largely finance local level services, a good case can be made that the key beneficiaries are the local property owners. Further, it is felt that properties derive their value to some extent from the provision of public services: hence it is fair that they should be taxed according to their value.[2]

With continuing urbanisation, though at a relatively slow rate, cities are becoming larger and larger and hence more and more public services have to be provided. Local bodies as well as State Governments are, therefore, feeling pressed for resources as they get pressured into making investments for the provision of these services. As cities grow larger, while the cost per capita of providing services may not increase, the absolute costs of investments become large and hence non-local resources have often to be tapped. Given the current state of the economy and its level of development, urban development programmes are not given a high priority. Hence, for the foreseeable future, ways and means need to be found for financing urban public services such that they can be largely self-financing. With property tax being the major local tax instrument, it is, therefore, very desirable that it should be re-examined thoroughly and ways found to administer it effectively.

CURRENT PRACTICES

As mentioned earlier, there is a very wide variation in the structure and administration of the property tax between states and cities. K.S.R.N. Sarma (1980) provides an exhaustive compilation of the different practices found in the country. Despite the diversity, there are a number of common elements.

For purposes of assessment, India has followed the British system of using annual rental value as the basis for taxation. The annual value is that of land and buildings taken together. Annual rental value is defined as the *gross annual rent at which the property may reasonably be expected to be let from year to year.* It is, thus, a hypothetical value which can be interpreted as the market rent of the property concerned. It is *not* the actual rent transacted. In practice, though, there is considerable variation in methods of assessment and the actual rents are used more often than not.

It is very difficult to get comprehensive data on the revenue realised from property taxes over the whole country. The Central Statistical Organisation does carry out a partial survey and presents annual data in its *Annual Statistical Abstract.* Similarly, the Reserve

[2]The subjects of the incidence of the property tax and who benefits from government expenditure are quite complex and cannot be treated here any further. Recent references are: Marcelo Selowsky (1979), Jacob Meerman (1979), Aaron (1975), Bird (1976) and Linn (1977).

Bank of India has a continuing Survey of Finances of Local Authorities and publishes data periodically in the *Monthly Bulletin.* Property tax accounts for about 50 per cent of all local tax receipts (B. Nanjundaiya, 1971 ; NCAER, 1980) and the 43 city corporations account for 50-70 per cent of all local tax receipts. An estimate of total property taxes in 1971 revealed that they were probably about 0.35 per cent of national income (R. Mohan, 1974, p. 11). This, incidentally, compares with total US property taxes being about 3 to 3.5 per cent of US National income (Dick Netzer, 1966). This proportion has curiously remained constant in the US for about a hundred years.

The NCAER (1980) study surveyed 51 municipal bodies around the country. It concluded that as a proportion of total tax revenue it remained constant for corporations at about 55 per cent while it fell from about 44 per cent to 40 per cent for municipalities. In most places total property tax consists of two components: house tax and service taxes. Service taxes include water tax, lighting tax, conservancy tax and fire tax, but are usually levied on the basis of rateable value of properties. Between 1970-71 and 1976-77 total property tax receipts in the sample bodies were found to increase at about 15 per cent per year. This compares with increases of about 17 per cent in both national and state taxes. The NCAER study is of the view, probably justfiably, that this growth in revenue has not been commensurate with the potential that it has, keeping in mind the increases in market values of property over the same period.

All states have provision for a periodical reassessment of annual rateable value. The reassessment period is usually every five years but this is not carried out in most cases. The tax rates vary between states: some levy tax on a flat rate basis, while others have progressive rate structures. In most states, the valuation is carried out by people who have little formal training in valuation. Among the main problems identified by the NCAER study that afflict the collection of property tax are:

—uniform methods of property valuation have not beene volved,
—given the lack of the above, local influences affect valuation in all kinds of ways,
—inadequate manpower quantity as well as quality,
—there are intrinsic conflicts between the provisions of rent control acts and the assessment of rateable value for property tax. Reassessment of properties is also affected by the operation of rent control acts, and
—lack of enforcement machinery to enforce timely payments.

Much of the other recent discussion on the administration of the

property tax has concentrated on making the basis of assessment more rational.

THE TAX BASE

Most studies dealing with property taxation in India discuss the relative merits and demerits of assessment of properties based on capital value or annual value. Recently, a third basis has been added to the debate—that based on certain physical characteristics of properties, or what has been called the area basis of valuation. (Ramakrishna, 1980 ; Jha, 1980). A fourth basis, site value taxation has a long history behind it (Henry George, 1879) and has also been discussed recently (Ammukutty, 1980).

The concept of annual rateable value as prescribed by the various municipal acts in India corresponds closely with the view of the English courts : "The rent prescribed by the statute is a hypothetical rent, as hypothetical as the tenant. It is the rent which an imaginary tenant might be reasonably expected to pay to an imaginary landlord for the tenancy of the dwelling in that locality, on the hypothesis that both are reasonable people, the landlord not being extortionate, the tenant not being under pressure, the dwelling being vacant and to let, not subject to any control, the landlord agreeing to do the repairs and pay the insurance, the tenant agreeing to pay the rates, the period not too short, not too long, simply from year to year." (D. Holland, 1970, p. 65). The concept then is essentially that of free market rent and is hypothetical since the housing market is seldom free of distortions and control.

Capital value is generally considered to be what a willing seller could be expected to receive for his property from a willing buyer if it were offered for sale free of encumbrances and on reasonable terms. The concept here again is the price of the property under a regime of a freely competitive market.

Now, the capital value of a property is the present value of the discounted stream of its expected income, *i.e.*,

$$V_0 = \sum_{t=0}^{t=\infty} \frac{Rt}{(1+rt)^t}$$

where V_0 is the capital value of a property at time. Rt is the rental at time t and r is the appropriate discount rate. In equilibrium,

$$R1 = R2 = \ldots\ldots = R \text{ and}$$
$$r1 = r2 = \ldots\ldots = r$$

Thus, theoretically, in an equilibrium or stable situation there is no

conceptual difference between the two bases of assessment. However, in reality, there is considerable uncertainty surrounding the future and especially so in situations of relatively rapid urbanisation. Moreover, in conditions of high and variable rates of inflation, there can be considerable differences between the present value of the discounted stream of annual rentals based on current rentals and the current capital value. To the extent that rising future rentals are foreseen, capital value increases can be expected to lead annual rental increases. One advantage of the capital value basis of property tax assessment is that, given frequent reassessment, property taxes would be more buoyant with rising capital values. To the extent that property taxes get capitalised the rising value of land and property would be slowed down if indeed the basis was capital value and there was frequent reassessment. Other advantages of capital value taxation that are often stressed are :

(*i*) Vacant land would be easier to tax and wou'd, therefore, lead to more efficient land-use.
(*ii*) It would be possible to form an elaborate valuation code.
(*iii*) Since some of the central taxes are based on capital valuation it would also lead to better collection of those taxes
(*iv*) It would be more difficult to evade taxation.

Ramakrishna (1980) has recently made a strong case for a new approach to the basis of the property tax. His ideas essentially respond to the widespread complaints from the public concerning the inequities and inefficiencies in the administration of the current system. He feels that the system of valuation as it exists now is "at best discretionary to a large extent and at worst arbitrary to an unacceptable degree". As a consequence, the first priority for reform should be that "the degree of discretion and possible arbitrariness in the present system has to be reduced if not eliminated altogether". The new basis suggested by him is then a system which is thought to be much more rational and mechanical where the discretionary powers of the valuation officers are reduced considerably. Under the system proposed, the basic tax would be related to the plinth area. There would be a surcharge on excess appurtenant land which is greater than three times the built-up area. Extra surcharges would be levied according to location, type of construction, nature of its use and age of building. Each of these variables would have five or six categories. The advantages of moving to such a system are seen to be :

(*a*) Owners can pay on a self-assessment basis once the parameters of the scheme are worked out.

(*b*) The scope of discretion now exercised by valuation officers would be greatly reduced.
(*c*) Computerisation of the tax system would be easier.
(*d*) Effort in reassessments every five years would be saved.
(*e*) Variation of taxes can be made by alteration of basic rates.
(*f*) Progressivity in taxation can be achieved by organising the extras such that the poor are benefited.

This is a very interesting attempt to eliminate the arbitrariness that the current system suffers from. The scheme is effectively a formula for property valuation where a property is defined by a vector of attributes. Hence, conceptually, what is being suggested is that the value of a property is a discrete function of six attributes:

V = f (plinth area; excess land area;
location; type of construction:
type of use; age)

where f (.) is a linear combination of the attributes mentioned. This is really a hedonic formulation of property values. While the scheme seems attractive in terms of its conceptual simplicity it is not obvious that it would not suffer from an equivalent amount of discretionary arbitrariness. As in the valuation of land the key problem lies in the delineation of locations. Location is the key determinant of the value of land. In smaller cities, the distance from the city centre is a good proxy for location. As cities grow and become polycentric, the distance variable becomes a composite one of distances from different employment and market centres. While overall patterns of land value can still be explained by distance from the city centre,[3] the determinants of land values of *particular parcels of land* are more complex. In Indian cities in particular, if a city is divided in 5 or 10 large zones a great amount of heterogeneity would be found in each zone and taxation according to such a definition would be as arbitrary as any other system. For such a discrete system to work the number of location categories would have to be very large. Alternatively, if the number of categories is kept small, relatively small non-contiguous neighbourhoods would have to be assigned the same locational categories according to the quality of the neighbourhood. Such assignation would naturally fall prey to the normal local influences. Similar discretionary problems, though not as serious, would arise with the assignation of the other categories.

Jha (1980) reviews various other similar suggestions including those

[3] For empirical demonstration of some of these ideas, see Mohan and Villamizar (1980).

by Kapoor (1977) and by the Operations Research Group (ORG, 1979) in a study for the Madras Metropolitan Development Authority. These studies also propose rationalisation of the current system. The ORG study suggests a system similar to Ramakrishna's. It proposes to arrive at a standard zonal rate for different zones by using "qualitative and quantitative indices of rantals, area detatils, type of construction, level of facilities, and types of neighbourhood. On the basis of zonal characteristics, size and type of buildings in each zone, a zonal rent per square foot of floor area is envisaged to be worked out which must reflect the market rent for the similar size and type of properties. Individual properties are then to be assessed in relation to this standard rate and deviation from this in terms of size and other indices." (Jha, 1980, p. 27). The suggested system is, therefore, to be based on the market rent (value) of properties in the different physical and functional zones of the city such that the range of variation in market value of a property within a homogeneous zone is much less compared to the range in market value of individual properties spread over the citiy. Periodical revision of zonal rates is also suggested.

Jha concludes that the rationale behind this alternative system is to capture, as far as possible, the market rent obtaining in a similar locality. He detects a certain circularity in the procedure. The backbone of the system is to be the standard zonal rate. But it is market rents in the area whice determine the zonal rate. And it is zonal rates which then determine the market rent for an individual property. As Jha interprets it, the problem ultimately boils down to getting sufficient evidence for determining the existing capital value. But this is the problem associated with any value basis, be it annual value or capital value.

How have such schemes worked in practice? Jha gives evidence from Linn (1976) who studied the administration of property tax in Jakarta. Property taxation is based on annual value in Jakarta, but the annual values are derived on the basis of an index table. Each property is cross-classified by the zone in which it is located, designated land-use for that zone, actual land-use of the property, and the level of amenities provided. Every property is given an index number which indicates the unit value of land. Linn concluded from his study that the system of assigning of index values in fact does not bear any relationship with actual land values prevailing in Jakarta. He also found that the tax table actually prepared in Jakarta did not bear any relationship with index values!

That these 'mechanical' systems of finding 'objective', 'rational' tax bases suffer from a number of problems should not be surprising. The main point in their favour *may* be ease of administration. It is unlikely that they will be any less anomalous in their effects. The implicit assertion in these systems is that a *small finite number of variables*, easily

measurable, can explain all the variations in land and property values within a city. Moreover, the assumption is that a linear combination of these variables is the correct functional form for deriving proxies for their value. It would be difficult to find any study of property or land values within a city which succeeds in explaining more than 30-50 per cent of variance observed. As in most cross-section studies, even if a model explains 30 per cent of the observed variance it is regarded as a good model. Hence, to look at the converse, 50-70 per cent of the observed variance in land or property values is usually left unexplained. How can we then expect to find a simple, easy to administer formula which forms the basis of property taxation? An analogy would be if we sought to base income tax assessment on the basis of a formula which took account of a person's age, education, sex, occupation, etc. Human capital formulations of labour earnings characteristically succeed in accounting for a third of observed variance in peoples' labour earnings. There are many other systematic or difficult to measure influences which determine a person's earnings. Similarly, there are many influences difficult to measure which determine property values be they annual or capital values.

As Jha has observed, these suggestions for new systems of property taxation really reflect a wider appreciation of flaw in the existing system of property taxation in India and the need for rationalisation of the existing somewhat chaotic system. My own interpretation of these new suggestions is that they would be appropriate as training manuals for assessors.[4] To the extent that *property value* is the appropriate base for taxation, as was justified briefly earlier, methods of assessment which concentrate on some of the *determinants* of these values are bound to be faulty, since no small set of determinants can fully explain the value of a particular property. Methods used to make these assessments should, however, include such systematic means at arriving at the values. As cities grow larger and tax records have to be maintained and revised, systematic methods would have to be developed for the valuation of properties. They can also be used as means of monitoring and checking valuations as they currently exist. Properties which are found to be vastly different from predicted values derived from a formula can then be checked for their special characteristics, if any. Thus the kinds of systems suggested by Ramakrishna and others for rational valuation should be used as pedagogic devices for the training of assessors and for purposes of checking and finding out gross inequities in the system. It would be an error if they are codified into law as the basis of taxation.

[4]See Appendix for information on a few places where such methods have been used for training purposes.

The other basis of taxation suggested is site value taxation (Ammukutty, 1980). Under this system it is the site value of land alone which is taxed—not the built-up property. The argument behind this tax is that land value increases are attributable to public investment or other external events and not due to the efforts of the individual owner ; the increments in value should then be captured for public benefit. Ammukutty suggests a number of differences betwsen the property tax as it is levied now and the proposed system of site value tax. It is not true to say that property tax is levied "mainly or wholly on man-made capital". Whether based on annual value or capital value, the volue of land is part of the property value and usually an indeterminate part. A well administered property tax would not favour old over new property as long as land values were rising and proper reassessments were done frequently. Land values are usually changed as a result of building up an area hitherto unbuilt up. It is also claimed that site value tax favours land utilisation to the maximum limit since the tax bill increases with the increase in economic rent of the land. Again, a well administered property tax would have the same effect. It should be obvious that since property value subsumes land value, any virtues of site value taxation should also be manifested in property value taxation. The only difference is that site value taxation does not tax the building, which the property tax does. Theoretically, at least, a change from property tax to site value tax should give a boost to housing construction activity. Although Ammukutty presents a good simulation exercise based on a part of Delhi to show how site value taxation can replace property taxation, practically a system based on site values suffers from a number of problems.

The key conceptual problem with site value taxation is that "there is no meaningful way, in theory as well as in practice, of separating the value of the site from the value of improvements if the site is not a vacant one" (Netzer, 1966, p. 128). Among other things, such as location, it is improvements themselves that have an impact on site values. Improvements on land alter the character of the location itself and hence change site values. This is not to say that there is no such thing as land value when it is built upon ; only to say that it is theoretically as well as practically difficult to determine. Site value taxation has been tried in a number of countries, specially Australia, New Zealand, South Africa and Canada. Netzer (1966) reports from a study by A.M. Woodruff and L.L. Ecker-Racz that "they observed little visible evidence of differences between communities which use site value taxation and those which use more conventional forms of property taxation".

Ammukutty's empirical exercise on the feasibility of applying site value taxation to the South Extension area of New Delhi illustrates another difficulty with the application of site value taxation. This

relates to the adequacy of revenues that can be collected from site value tax. According to a study by James Heiburn, cited by Netzer, it has been estimated that the present yield of the real estate tax in the United States may exceed the whole rent of land, which is the theoretical maximum revenue potential. In fact, if there is 100 per cent taxation, the value of land would decline to zero. Hence the taxation rate would have to be considerably less than 100 per cent. Ammukutty attempts to show that it is quite possible to collect equivalent revenue from site value tax. However, the assessable annual value of land alone as estimated by her is greater than the estimated total rateable property value.[5] The estimated property tax collected is between 15 and 20 per cent of the annual property value. This implies that if the property and land values were taken in comparable terms, site value tax would have to be at least *50 per cent* of annual site value (assuming that land value is between 30 and 40 per cent of total property value on average), in order to give tax revenue equivalent to property tax revenues.

Having made all these strictness, it should be pointed out that it has long been recognised that site value taxation is a theoretically very attractive instrument of taxation. Since land cannot be moved, taxing location rents has no effect on landlords' decisions. It is also neutral with regard to the intensity of land-use. Incentives to develop high valued sites remain unaffected—relative values of different sites are not altered. Furthermore, the capitalisation of the land tax would reduce land prices and, therefore, dampen land value increases. Imposition of site value taxation would then encourage an increased rate of investment in new buildings, less speculation and more intensive use of land.

This review of the different bases of property taxation suggests that alternative methods of taxation are unlikely to be superior to the conventional property tax if it is well administered. The key is really frequent reassessments and the treatment of vacant land on a par with other properties. In current Indian practice, vacant land is not generally taxed on the grounds that it has no annual rateable value. Capital value based property taxation is probably the cleanest method of property taxation though it also suffers from some administrative problems. It is much easier to administer capital value based taxation when there are active property markets. Usually, this is not a major problem in areas which are newly developed, but in older areas transfer of property is fairly infrequent : hence market values are difficult to observe. Furthermore, in Indian cities, the majority of taxable dwellings are let rather than owner-occupied. In Calcutta it was estimated that 75 per cent of properties were rented and only about 18 per cent owner-occupied

[5]Ammukutty (1980) Table 2, p. 17, For NDSE I, Estimated rateable value is Rs. 571,762 while assessable land value is Rs. 699,547. For NDSE II they are Rs. 789,440 and Rs. 1,238,228 respectively.

(Government of West Bengal, 1967); in Ahmedabad over 80 per cent of properties were rented (S.P. Gupta, 1971). The administrative burden is, therefore, lighter for the annual value method where tenancy is the rule and annual rents can be easily observed. A further problem with capital value taxation is the very complex ownership pattern of land that is now emerging in some Indian cities. It is often the case that in newly developed areas urbanised by a public authority, the title to land is not on a freehold basis but on varying degrees of leasehold—from short term leases to perpetual leases. There are also usually restrictions on the transfer of land within specified periods, *e.g.*, 10 years from the date of allotment. The meaning of the capital value of land in such cases becomes unclear and annual value would be easier to arrive at. One result of such restrictions is that black market transactions take place reflecting higher values than would probably be the case were there no restrictions.

Whether the property tax is based on capital value or annual value, it has been suggested that it is the lack of frequent reassessment that is the real problem—both in terms of the buoyancy of tax revenue and the allocative effects of the tax. The main problem with reassessments in India, aside from the obvious administrative problems, is the existence of rent control acts which disallow increases in rents. As long as rents are controlled it is obviously unreasonable to increase taxes on properties. A few comments on rent control are, therefore, in order here.

RENT CONTROL

Each State has its own rent control acts most of which were enacted in the forties or earlier fifties. These acts froze rents at the time of their enactment and provide detailed guidelines for the computation of standard rents for building constructed thereafter. New buildings are often exempt for a certain number of years.

Various court judgements over the years have ruled that the local authority cannot assess the annual value of any property at a value greater than the standard rent. This ruling applies even when the actual rent transacted (by mutual agreement between the landlord and tenant) is higher than the standard rent. The result of these acts is, therefore, to severely curtail the property tax base of all local authorities. In addition, the housing market is severely distorted, old buildings do not get repaired and landlords adopt illegal rent transactions to maintain a reasonable 'real' rate of return on their property.

Almost every study dealing with property taxes touches on rent control problems. Each of the government committees went into them in some detail. The Zakaria Committee (1963) and the RURC (1966) both recommended that municipal assessments should be freed from rent control and the increases in tax should be extracted from the tenant. Others have also gone along with the basic idea that municipal valuation

should not suffer because of rent control acts. What is surprising is that few have recommended abolition or amendment of the rent control acts themselves. The Taxation Enquiry Commission of 1953-54 was an exception to this and stated the basic issues well :

> . . . the controlled rents must be assumed to be reasonable rent ; and we are unable to agree that municipalities should in effect be permitted to ignore the very fact that a particular limit has been set by statute to the rent which the landlord may levy and make the assumption that he may 'reasonably' obtain a rent which exceeds that maximum. Nor are we able to agree with the other suggestion, *viz.*, that the landlord should be permitted to pass on to the tenant the increase in the tax which would result from the previous proposal. The real issue raised by the suggestion is in regard to the level at which rent happens to be controlled, and the proposal is in effect that level should be raised to the extent that the tax may be raised on the basis of a 'reasonable' assessment higher than the controlled rent. This raises larger question as to the levels at which rents should be controlled from time to time. What is clear is that the municipality cannot through revision of assessments, be allowed in effect to decide that question and in individual cases alter the level prescribed by government. (Government of India, 1955, Vol. III, p. 377).

This, in essence has also been the view of the courts in various judgements concerning the problem.

The basic issues have not changed since this lucid exposition of the problem in 1955. I am convinced that it is rent control acts which should be abolished or amended in order to release property taxes from the binding constraints of controlled rents. My understanding of the legal issues leads to the belief that no municipal subterfuge can bypass the rent control Acts. As long as one arm of the government fixes what are regarded as fair or reasonable rents, no other arm of the government can pretend otherwise. With the inflationary trends experienced by the economy over the past decade, this problem is becoming even more serious as housing activity is discouraged more and more. The impediments to mobility caused by the operation of rent control acts also contributes to misallocation of resources in the city.

It is not at all clear that rent controls actually benefit low income tenants nor that they redistribute income. Abhijit Datta (1973) claims that they do not. These are relevant questions to do with issues of both horizontal and vertical equity. Firstly, it is not always the case that tenants are poorer than landlords. Secondly, if we are really interested in subsidising the poor, why pick on owners of real property as opposed to other owners of capital ? Old settlers are protected at the cost of

recent migrants, newly married couples and mobile tenants. This often involves a regressive distribution rather than a progressive one. Rent control also has the effect of discrimination against old buildings and discouraging maintenance, thereby leading to unnecessary depletion of housing stock. In terms of economic efficiency it is inefficient because it is a tied subsidy : the tenant might wish to use the subsidy for other purposes were he given the choice.

On the other hand, if a conscious political decision is made that rent control is essential there is no reason why property taxes should be freed from that decision. If the problem is of local body finances then a matching decision should be made to finance them through other means. It is fairly clear that the rent controls have outlived their usefulness and are in dire need of a complete and rigorous examination before they are changed. Obviously, rent controls cannot be lifted overnight : it would have to be careful and phased change. Equally obviously, tenants do need to be protected from unreasonable increases in rent : a change in rent controls would then incorporate some kind of ratchet control. Rent controls could be maintained but revised in relation to price movements at regular intervals, *e.g.*, annually.

A cautionary note : one other serious problem with the revision of rent controls is that of sticky wages in India. A significant proportion of people are on fixed wages which are indexed. If at all, with price movements only with a considerable lag. Hence it would be unreasonable to make reforms in the rent control provisions without corresponding changes in national incomes policy as part of comprehensive economic reforms.

VALUATION PROCEDURES

Even if various reforms are made in the operation of rent control acts so that properties can be valued properly for the purposes of property tax assessments, problems of correct valuation will remain. Most analysis of property tax have always lamented gross inefficiencies in assessments—as much in other countries as in India. Two kinds of reasons are usually seen for these inefficiencies :

—local bodies being at the bottom of the governmental structure get the least qualified and able politicians as well as officials. They are thus *ill-trained* or *unable* to make proper assessments ;

—again, local bodies being the lowest form of elected governments, they are nearest and most susceptible to parochial pressures. This has the result of *wilful* corruption leading to improper assessments.

The standard solution proposed has been the setting up of a *central*

valuation authority at the state level. All the government committees have suggested this as well as other commentators. There is some contrary feeling that local bodies should be strengthened rather than weakened and, therefore, should be given the responsibility for making assessments. However, I feel that although local bodies do need strengthening, the advantages of a central valution authority in this case outweigh its possible deleterious effects on the morale of local bodies.

It has been estimated (J. Madhab, 1968) that underassessment varied from anything like 25 per cent to 85 per cent of annual value. If instituting a central valuation authority (CVA) reduces even half of this underassessment it would be worth the reform. The mere establishment of a CVA frees the process of assessment from local pressures. Such an authority would be professionalised by appropriate training programmes and could, therefore, promote efficiency in that form. It can even undertake studies to determine practical ways of assessing value. The kind of systems suggested by Ramakrishna and others for the rationalisation of tax structures can be incorporated in such training programmes. If the authority is at the state level or borne on a state cadre it would have increased chances of attracting more able officials than local bodies are apt to. If a more decentralised solution is preferred, the CVA could instead be established as a training and watch-dog agency rather than as an executing agency. It would then train valuers in a systematic fashion and help in establishing valuation norms. The valuers themselves could work for the local bodies. This arrangement could have the disadvantage of susceptibility to local pressures but it would be alleviated somewhat by the CVA performing spot checks at random intervals.

The added benefits that could accrue from a CVA would be in the collection of central taxes. Since wealth, gift, estate, capital gains taxes are all dependent on urban property to a large extent a CVA could be providing data at a central level. The establishment of such an agency could have the effect of improving collection of all these taxes.

CONCLUSIONS

It is clear from the foregoing that the reform of property taxes is a very complex legal and procedural issue. It is also clear that with continuing urbanisation and the rising demand for urban services, there is no choice but to raise greater resources at the local level. Hence a major reform of property taxes is more than overdue and should be tackled with some urgency.

Ideally, a shift to capital valuation basis would be desirable in order to be able to capture increasing land values to public account at the right time. Even if this is too difficult to accomplish given that a system based on annual value is already in place, frequent and rational

reassessment of annual value would be second best solution. Not much change, however, can take place without major amendments in rent control acts so that urban housing and property markets can function more effectively and housing activity is no longer discouraged. Along with these changes the establishment of State level valuation authorities would also aid in improved administration of the property tax.

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Appendix

SELECTED EXAMPLES OF STANDARDISED ASSESSMENT IN PRACTICE

In most states annual rental value is defined as the gross annual rent at which the property may reasonably be expected to be let from year to year. Problems arise because this is a hypothetical value by definition and therefore the assessor has a great amount of discretion in the valuation procedure. Many inequities are observed as a result and some local authorities have attempted to find procedures to minimise this discretion by adopting standardised assessment procedures. Examples of such procedures in practice in Kerala, Bangalore and Bombay are given below.

KERALA

The State Government of Kerala established the Kerala Urban Development Finance Corporation in 1970 in order to :

(*i*) provide financial assistance by way of loans and advances to urban local bodies in the State for their development schemes,
(*ii*) provide technical or any other assistance and guidance to urban local bodies in the matter of their development schemes including implementation of the Master Plans prepared for the urban local bodies, and
(*iii*) provide assistance and guidance to urban local bodies for improving their administrative machinery and procedure.

As part of its activities, the Corporation has assisted in establishing the Centre of Urban Studies at Trivandrum which is conducting various courses for the training of staff from local bodies. One of the courses which is conducted by the Centre is on Property Tax.

The Centre has developed a procedure by which "Reasonable Letting Values" can be standardised and this method is apparently being practised by local bodies in Kerala. Each property is classified according to the following groups :

(*i*) *Zone* : Central Zone and Sub-urban Zone. The Central Zone is defined as the area where facilities are abundant and well developed and the rest is the Sub-urban Zone.
(*ii*) *Locations* : Six classifications are suggested according to the accessibility of the building by type of road, *e.g.*, buildings located on main roads, other town roads, motorable lanes, etc.
(*iii*) *Type of Buildings* : Again there are six types suggested ranging

from modern type buildings with walls of burnt bricks, reinforced concrete, etc., to thatched huts.

These three types of classifications yield 72 cells into which buildings can be classified. It is suggested that rents be observed over the city and averages calculated for each cell. A chart with these averages can then be drawn up which would become the standard rent chart. Properties would be assessed according to this chart. It is also suggested that: "A range in such standard reasonable letting values has actually to be adopted in order to make allowances for the age of the building." The range suggested is 10 per cent above or below the standard value.

These details are given here because this procedure illustrates well how standardisation can be used as an administrative training device.

Kerala has relatively small cities (Cochin being the largest with less than 1 million population) hence locational differences within cities are not very severe. Seventy-two cells are then sufficiently disaggregated to capture the differences in types of dwellings. Conceptually, the method is not different from the calculation of hypothetical rent: what is being done here is that this calculation is being made more systematically in order to avoid horizontal inequity. Moreover, discretion is still allowed in order to take account of individual age and, perhaps, other differences. This is as it should be. Market information itself is being used to derive the standardised rents. Such a system would be difficult to put in terms of a legal valuation code and yet retain its flexibility.

BANGALORE

Yazdani (1978) has given information on standardisation practices in Bangalore and Bombay.

The Bangalore City Corporation has developed a schedule of letting values per square metre of plinth area of properties classified according to nature of roof, nature of floor and year of construction based on construction indices. No account is taken of location. It is not clear from Yazdani how exactly the letting values are derived.

This standardisation procedure would probably lead to as many cases of 'unreasonable' assessments as the traditional method since it does not take into account variations in value according to location. If the letting values are derived from observed rentals, the method would be similar to the Kerala method (except for location) but if they are arbitrarily imposed, they would not be following the spirit of the 'hypothetical rent' idea.

BOMBAY

Bombay Corporation has given considerable attention to the problem of property valuation and is attempting to make annual revi-

sions of rates of taxation. One problem it has faced increasingly in recent years is that a large number of new properties are either owner occupied or belong to cooperative societies. Annual rental values are then difficult to observe. Detailed guidelines are given to adopt the 'contractor's test method' for assessment. A schedule has been drawn up for different types of construction, for different types of buildings, for different years and locations. Account is also taken of the cost of land. The method adopted is essentially to ascertain the capital value and than approximate the "fair and reasonable return on capital invested". It is claimed that with the guidelines given, assessment is mechanical and fair.

It is difficult to evaluate this method without further information. To the extent that the valuation procedure reflects the real capital value of buildings (including land) it is, in principle, approximately the 'hypothetical rent' idea since few real rents can be observed. The schedule is an administrative device where experts do the valuation and then give relatively simple instructions to the field assessors—hence avoiding individual errors as well as excessive discretion. Once again, such rules would be difficult to put into a legal code and yet retain a certain amount of flexibility. □

Organisation of Property Tax Valuation and Assessment

D.D. MALHOTRA

THE MUNICIPAL government in India are coming under severe pressures on account of the rapid increase in demand for more and better urban services, while their financial capacity to provide even the bare minimum of such services has shrunk. The income from revenue sources available to them has not increased along with their expenditure needs and the gap is being widened by the growth of population and inflation. Observing the similar plight of local governments in developing countries, the World Development Report 1979 points out that : "Few attempts are made by higher level authorities to help local governments in urban areas to develop capacity to deal with important and growing task of urban services delivery, planning and regulation. Management, budgeting and accounting practices are generally very poor; structures of taxes and fees tend to be antiquated and their local administration and collection badly neglected..."[1] The local governments are caught in vicious circle of inadequate resources, low performance, low credibility for being entrusted with important functions—low capacity to attract good talent (administrative and political), greater State supervision and control restricting the resource base for limited maintenance functions, inadequate resources. Obviously, the local governments cannot come out of this trap unless the State Governments choose to help them out by introducing appropriate reforms. No reform whether dealing with organisation structures, personnel, or procedures, etc., in municipal administration can be effective to give the desired result unless an attempt is simultaneously made to improve the availability of financial resources on a more stable and flexible basis. Apart from reorienting state-local financial relations towards this end, there are also distinct possibilities of increasing, through certain reforms, the revenue yield from sources allocated to urban local bodies. One of the very important source of municipal revenue in India is property tax the yield of which is heavily dependent

[1] *World Development Report, 1979*, World Bank, Washington, D.C. 1979, p. 85.

upon the machinery for its administration. The concern of this paper is to explore and examine the organisational and administrative aspects of valuation and assessment of property tax in municipal legislations[2] of 16 States in India.

ORGANISATIONAL SETTING

The administration of property tax closely follows the executive structure of municipal organisation. The municipal corporation Acts clearly separate the deliberative and executive functions and the head of executive system, the commissioner, is recognised under law as a distinct municipal authority enjoying statutory powers. He belongs invariably to higher civil service and serves the corporation on deputation. Historically, in the case of the municipal councils (also known as boards or committees in different States), there has been a fusing of the deliberative and the executive functions in the council which, at its inception, was a nominated body under the control of the district collector, but gradually became an elected body. However, the municipal councils in the southern states have remained close to the 'corporation' model. In the municipal corporations and the southern municipalities, following the 'corporation' model, the administration of property tax is entirely the responsibility of the appointed executive.

The detrimental effects on municipal administration caused by the fusion of deliberative and executive functions in the council have frequently been pointed out. The Taxation Enquiry Commission in 1955 endorsed the following observations of the Conference of Local Self-Government Ministers :

> For improving the standards of administration in local bodies there is a very good case for separating as far as possible, their purely executive functions from the deliberative or policy making functions. The latter category of functions should appropriately be the sphere of the elected wing of the local bodies. Once policies

[2]The municipal legislations referred to are : (1) Assam Municipal Act, 1956 ; (2) Andhra Pradesh Municipalities Act, 1965 ; (3) Bihar and Orissa Municipalities Act, 1922 ; (4) Gujarat Municipalities Act, 1963 ; (5) Haryana Municipalities Act, 1973 ; (6) The Himachal Pradesh Municipalities Act, 1968; (7) Karnataka Municipalities Act, 1964; (8) Kerala Municipalities Act, 1960 ; (9) Madhya Pradesh Municipalities Act, 1961 ; (10) Madras District Municipalities Act, 1920 as in force in Tamil Nadu; (11) Maharashtra Municipalities Act, 1965 ; (12) Orissa Municipal Act, 1950 ; (13) Punjab Municipalities Act, 1911; (14) Rajasthan Municipalities Act, 1959 ; (15) Uttar Pradesh Municipalities Act, 1916 ; & (16) Bengal Municipal Act, 1932. According to the West Bengal Central Valuation Board Act, 1978, the function of valuation is to be entrusted to the Board. Since the Act is yet to be enforced, the Bengal Municipal Act, 1932 has been included for comparative analysis.

and decisions have been adopted, however, their implementation and execution should be left to the chief executive officer who must be made primarily and directly responsible for this part of the work.[3]

The commission further emphasised that executive powers and administrative responsibility should vest by statutory provision in the chief executive officer "who should be selected and appointed by Government or by an independent statutory board."[4] In recent years, many State Governments, following the conciliar model, have introduced changes to separate deliberative and executive functions of the municipal council and entrust the latter to the executive wing headed by an executive officer appointed by the State Government. However, in the administration of property tax certain linkages between the two wings have been retained to a varying degree under the legislations governing municipalities in different states, with the exception of collection of tax which is uniformly entrusted to the executive wing.

The legislations covered provide that the municipalities, with the exception of those in Haryana and Maharashtra, may impose property tax, while in these two States it is mandatory to do so. Nevertheless, the State Governments are empowered to require the municipalities to impose the tax and it is this provision which has taken away the discretion of municipalities in the imposition of property tax. Still, the councils have the discretion to decide the rate at which the tax shall be levied within the limits, if any, prescribed by the Act. Once the tax has been imposed and rate decided, the municipal legislations prescribe the procedure for valuation and assessment of properties. The essential components of this procedure are :

(*a*) Preparation of valuation and/or assessment lists;
(*b*) Periodic revision of valuation/assessment list;
(*c*) Validation of valuation/assessment;
(*d*) Grant of exemptions and remissions;
(*e*) Modifications/alterations in the assessment list ; and
(*f*) Appeals.

Preparation of Valuation/Assessment List

In case of Assam, Bihar, Orissa, and West Bengal, the Law requires the preparation of separate valuation and assessment lists. While in West Bengal the valuation list is to be prepared by an assessor to be

[3]*Report of the Taxation Inquiry Commission* (1953-54), Government of India, Ministry of Finance, New Delhi, 1955, Volume III, p. 371.
[4]*Ibid.*

appointed by the council, its preparation is entrusted to a valuation officer in Orissa, an assessor in Assam and the executive officer in Bihar, who are appointed by their respective State Governments. The preparation of assessment list in West Bengal and Assam is the responsibility of the council, while it is assigned to the executive officers of the municipalities in Bihar and Orissa. In all other states, valuation and assessment are combined in a single document known as the assessment list or book. While assessment of all properties is based on their valuation, whatever may be its bases, such as, rental value, capital value, or site value, etc., the term valuation, used distinctly from assessment, refers to the periodic general revision of assessment. All enactments provide for such general revision of assessment of properties irrespective of the use or non-use of this term in them. The valuation is carried out, as indicated in the Table 1, by an assessor to be appointed by the council in West Bengal, Assam and Rajasthan. While in Rajasthan and Assam, the approval of the State Government is necessary for his appointment, in Assam it is specifically laid down that the assessor shall not be an employee or councillor (commissioner) of the municipality. In West Bengal, the assessor is to be appointed from a list of persons prepared by the government, and if no such person is available, any one can be appointed an assessor with the approval of the State Government. If the council fails to appoint an assessor within a specified time, the State Government makes such an appointment. However, if it appears to the State Government that the valuation is

TABLE 1 PREPARATION OF VALUATION/ASSESSMENT LIST

Authority assigned	*States*
1. Council[5] shall cause its preparation	Haryana, Himachal Pradesh, and Uttar Pradesh
2. Assessors appointed by the council	West Bengal, Assam and Rajasthan
3. Assessor/valuation officer appointed by the State Government	Orissa,* Karnataka and Andhra Pradesh
4. Executive officer[6]	Bihar, Madhya Pradesh, Gujarat, Maharashtra, Punjab, Tamil Nadu and Kerala.

*In Orissa till the valuation officer is appointed, the task is assigned to the executive officer.

[5]The term council is used in some states while in other states it may be called municipal board or committee, or commissioners at a meeting.

[6]Municipal executive officer is known as commissioner in Tamil Nadu, Kerala, Rajasthan, as secretary in Andhra Pradesh and Himachal Pradesh, as chief officer in Maharashtra and Gujarat, chief municipal officer in Madhya Pradesh.

insufficient, or excessive, or inequitable, they can require the municipality to appoint an assessor in Bihar, subject to such qualification as may be prescribed ; while in Assam, the assessor may be appointed by the State Government. In Madhya Pradesh, Gujarat, Punjab, Maharashtra, Tamil Nadu, Kerala and Bihar, it is the responsibility of the executive officer to prepare valuation/assessment list. In Orissa, Karnataka and Andhra Pradesh, valuation officers/assessors are to be appointed for this purpose by the State Government. In other states, it is the municipal council which causes the preparation of valuation/assessment list through the process of delegation of powers. Orissa is the only State which provides in its municipal enactment for the setting up of a valuation organisation as a part of State Municipal Directorate and the task of valuation is entrusted to the valuation officer belonging to this organisation.

Periodical Revision of Valuation/Assessment List

General revision of valuation of properties is a precondition for property tax to be an elastic source of municipal revenue. If it is not done, the local bodies will be deprived of higher revenues. Though all municipal enactments provide for general revision, variation in its periodicity will be observed from Table 2. In Himachal Pradesh and Punjab, the valuation may be done every year or the municipal council may adopt the valuation and assessment for any year with such alteration where necessary, as the valuation and assessment for the following year. While the assessment list is required to be completely revised in Rajasthan not less than once in every three years ; in Maharashtra, Karnataka and Madhya Pradesh, it is to be done at least once in four years. Once the assessment list is revised in Maharashtra, it is to remain in

TABLE 2 PERIODICITY OF VALUATION

Periodicity of general revision of assessment	*States*
1. No prescribed period within which general revision should take place	Himachal Pradesh and Punjab
2. To be revised once in every :	
(*a*) Three years	Rajasthan
(*b*) Four years	Madhya Pradesh, Gujarat, Maharashtra and Karnataka
(*c*) Five years	Assam, West Bengal, Bihar, Uttar Pradesh, Haryana, Orissa, Andhra Pradesh, Tamil Nadu and Kerala.

force for four years. In Gujarat too, the assessment is required to be revised every four years. In other otates, quinquennial assessment of annual value is provided for.

Validation of Valuation/Assessment List

After the general revision of the valuation/assessment list, all the municipal enactments require an elaborate procedure for its validification, which involves issuing of public notice for inspection of the list, inviting objections against any entry therein, hearing of objections, and authentication of the list. Significant variations in regard to allocation of responsibility in these matters amongst different states will be noticed from Table 3. The public notice for inviting objections against assessment in Assam, Haryana and Himachal Pradesh is to be given by the municipal council, implying that unless the council acts in this matter or delegates its power to one of its committees or to anyone prescribed under law, further action cannot be taken. In West Bengal, the responsibility is entrusted to the chairman of the council. Executive officers in Bihar, Madhya Pradesh, Punjab, Maharashtra, Gujarat, Tamil Nadu, Kerala and Uttar Pradesh, while valuation officer/assessor in Andhra Pradesh, Rajasthan, Orissa and Karnataka are to issue public notice. It will also be observed that in all the States, the authority required to issue the public notice is also the one to receive objections, with the exception of Punjab, Gujarat and Orissa.

Even though the responsibility of preparation of assessment list in Maharashtra is that of the executive officer (known as chief officer), the list is verified by the valuation officer to be appointed by the Gtate Government. After verification, he forwards it to the chief officer, who gives the public notice for inviting objections. The list, along with the objections received, is sent to the valuation officer who hears the objections and after disposing them of, he authenticates the list and sends it to the chief officer for implementation. The authorised valuation officers are to be appointed by the State Government from amongst the officers of its Town Planning and Valuation Department. Till such time a valuation officer is appointed, his powers and functions are entrusted to the standing committee of the council.

In Orissa, the valuation officer is required to publish the valuation list for inspection and inviting objections and submit one copy to the council for its views. The objections are to be received by the executive officer, who forwards them along with the views or objections, if any, of the council to the valuation officer who is empowered to hear the objections and to authenticate the list. After their disposal the valuation officer finally sends back the list to the executive officer for enforcement. Until the appointment of the valuation officer, his powers and functions vest in the executive officer. It means that in the event of a valuation

TABLE 3 VALIDATION PROCESS OF VALUATION/ASSESSMENT

Activity/Authority assigned to	*States*
I. Public notice to be given by :	
(*a*) Municipal council	Assam, Haryana, Himachal Pradesh, West Bengal
(*b*) Chairman of the council	
(*c*) Executive officer	Bihar, Madhya Pradesh, Punjab, Maharashtra, Gujarat, Tamil Nadu, Kerala and Uttar Pradesh
(*d*) Valuation officer/assessor	Andhra Pradesh, Rajasthan, Orissa and Karnataka
II. Objections to be made to :	
(*a*) Municipal council	Assam, Haryana, Himachal Pradesh, and Punjab
(*b*) Executive committee of the council	Gujarat
(*c*) Chairman of the council	West Bengal
(*d*) Executive officer	Bihar, Madhya Pradesh, Maharashtra, Tamil Nadu, Kerala, Orissa and Uttar Pradesh
(*e*) Valuation officer/assessor	Andhra Pradesh, Rajasthan and Karnataka
III. Objections to be heard by:	
(*a*) Municipal council (generally delegated)	Assam, Haryana, Himachal Pradesh, Uttar Pradesh, Madhya Pradesh and Rajasthan
(*b*) Special committee	Punjab, Bihar, West Bengal and Gujarat
(*c*) Valuation officer/assessor	Andhra Pradesh, Maharashtra and Orissa
(*d*) Executive officer	Tamil Nadu and Kerala
(*e*) Revising authority	Karnataka

officer not being appointed, the executive officer, who is an employee of the council, though appointed by the State Government, is required to consider the objections, if any, of the council to the assessment list prepared by him.

The objections against valuation/assessment are required to be heard by the council, or a committee of the council to whom it may delegate its powers for this purpose, in Uttar Pradesh, Madhya Pradesh and Rajasthan. In Gujarat, this task is assigned to the executive committee of the council or to such other committee to whom the council, with the permission of the government, may transfer. A committee of the council consisting of not more than five members, including the chairman or the vice-chairman of the council, who shall be an *ex officio*

member, has been entrusted with the powers of hearing objections and their disposal in Assam and West Bengal. In all these states, except West Bengal, the council can delegate its powers and functions in this behalf to an officer of states government with its prior permission. In Gujarat and Madhya Pradesh, such an officer can also be a government pensioner. In the case of Himachal Pradesh and Haryana, there are no similar provisions requiring the appointment of either a committee or of an officer to whom the council may delegate its powers and functions for this purpose. In Punjab and Bihar, different composition of the committee for hearing objections and their disposal is prescribed. While in Punjab, the committee comprises of two councillors elected by the council and the executive officer, in Bihar the assessment committee consists of two councillors and two tax-payers of the municipality elected by the council and a government servant not below the rank of deputy magistrate to be nominated by the District Magistrate, provided no councillor or tax payer shall hear appeal from the ward from which he is elected. The authentication of the list, after all the objections have been disposed of, is required to be done wherever the council or its committee is empowered to hear objections by at least two councillors and in case the council has delegated its powers to a government officer, it is to be done by him. In Madhya Pradesh the executive officer (CMO) is also required to authenticate the list. In Gujarat, if authentication is not done within the prescribed time, the state government is required to appoint any person to do it.

In Tamil Nadu and Kerala, the revision petitions lie before the executive authority, *i.e.*, the municipal commissioner (executive officer) and where no commissioner is incharge in respect of the municipalities appearing in Schedule IX of the Act and in the rest of the municipalities, it is the chairman of the council. In Kerala, the revision petition lies before the municipal commissioner. Thus, municipal commissioner in these states perform the important task of hearing objections and authentication of the assessment list after their disposal. In Andhra Pradesh, these functions have been entrusted to the valuation officer appointed by the state government.

In Karnataka, which public notice inviting objections is required to be given by the assessor to whom all objections to valuation and assessment are to be made, the powers to hear objections and authenticate the list vest in the revising authority, that is, the municipal commissioner of a municipality where such a commissioner is appointed and elsewhere, any government officer not below the rank of an Assistant Commissioner specially appointed by the Government for this purpose and where no such officer is appointed, the Assistant Commissioner having jurisdiction over the revenue sub-division in which the municipality lies. West Bengal is the only state where there is a provision for the appointment

of an Assessment Tribunal by the state government for this purpose. Once a tribunal is appointed, it takes over the powers and functions of the committee of the council ordinarily set up for this purpose.

Grant of Exemptions and Remissions

Exemptions from payment of either whole or part of the property tax are either prescribed under the municipal enactments or the municipal councils are empowered to grant them. In the case of Andhra Pradesh, Karnataka, Tamil Nadu and Kerala the municipal legislations exempt certain categories of properties from payment of whole or part of the tax. These properties include places of public worship or those used for charitable purposes, *choultries* for occupation of which no rent is charged or the rent charged is used for charitable purposes, playgrounds, libraries, etc. However, the municipal councils in these states are empowered to exempt, with the previous sanction of their respective governments, any particular part of municipal area from payment of whole or a portion of water, drainage or lighting tax (which is the component of property tax) on ground that such area is not deriving full benefits of water supply, drainage or lighting system. They are also empowered to exempt, by passing a resolution, any property the annual value of which does not exceed the sum specified in the resolution but not greater than the sum prescribed in the enactment, or the owner of which does not own any other building and is not liable to pay profession or income tax.

The municipal councils in Punjab and Uttar Pradesh may exempt, by a resolution to be confirmed by state government, any person or class of persons or any property or class of property from payment of property tax or they may reduce the amount of tax. In Himachal Pradesh, Haryana, Bihar, West Bengal, Assam and Orissa such exemptions or reductions from tax may be granted by the council on specific ground of poverty or excessive hardship. While in a number of states, the power to grant exemptions also vests in government, it is only in the case of Maharashtra that the state government is required to reimburse the loss to the municipal councils caused by the exemptions granted by it.

In all the states, the total or partial remission or refund of tax is to be granted in case the property has remained unoccupied or unproductive of rent, provided due notice to the authority is given. It will be observed from Table 4 that while such remission is to be granted by the executive officer in Uttar Pradesh, Bihar, Andhra Pradesh, Kerala and Tamil Nadu, the municipal council is vested with the powers to do so in Himachal Pradesh, Haryana, Punjab, Rajasthan, Madhya Pradesh, West Bengal and Karnataka (where no municipal commissioner is appointed). In the case of Gujarat, it is the executive committee of the council which

has been entrusted the powers and functions in this regard. In most states where municipal councils are empowered to grant remission, they can delegate its powers to do so to a sub-committee or the chairman/ president of the council or to the executive officer.

TABLE 3 GRANT OF REMISSIONS

Authority assigned	*States*
(*a*) Council (may delegate)	Himachal Pradesh, Haryana, Punjab, Rajasthan, Madhya Pradesh, West Bengal, Karnataka (where no municipal commissoner is appointed) and Maharashtra.
(*b*) Executive committee of the Council	Gujarat
(*c*) Executive officer	Uttar Pradesh, Bihar, Andhra Pradesh, Kerala, Tamil Nadu and Karnataka (where a municipal commissioner is appointed).

Modification/Alteration in Assessment List

Between one general revision and another, it becomes necessary to amend the assessment list by carrying out modifications and alterations necessitated by revision of rate of taxation, change of ownership or construction of new buildings or when the buildings are altered or added to or reconstructed in whole or in part where such constructions, alterations and additions have been completed after the preparation of the assessment list. The valuation of a property may have to be altered when it is demolished or destroyed or when the property is erroneously omitted or valued or assessed through fraud, misrepresentation, accident or mistake or while correcting any clerical or arithmetical error. All the municipal enactments stipulate such contingencies requiring amendments to the assessment list from time to time. In order to minimise the loss of municipal revenue by keeping the records correct and up to date, the municipalities are enabled to claim their share of increase in rental value caused by additions/alterntions to or reconstruction of buildings. In Bihar, the amendment to the list can be caused at any time by revaluation and reassessing, on the bases of generali mprovement in a locality, of the properties located therein. In Madhya Pradesh, the owner of a property which is let out is required to give a notice to the council whenever there is an increase in rent and the assessment list can be modified to reflect the increase in rental value. In Andhra Pradesh, however, the assessment can be altered as a consequence of a revision petition claiming the decrease in annual value.

The authority to cause the amendment in the valuation/assessment list in Himachal Pradesh, Haryana, Uttar Pradesh, Rajasthan, Madhya

Pradesh, West Bengal and Assam vests in the municipal council which may delegate it. But in the case of Punjab, it is the special committee of the council with the executive officer as its member and in Gujarat, the executive committee of the council which is entrusted with this task. In Bihar, Orissa, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala and Maharashtra, it will be observed from Table 5 that the executive officer, by whatever designation he is known in these states, is empowered to amend the list. In Maharashtra, the chief officer is required to exercise his authority in this matter in consultation with the valuation officer or the standing committee of the council when there is no valuation officer.

TABLE 5 AUTHORITY TO AMEND THE ASSESSMENT LIST

Authority vests in	*States*
(*a*) Municipal council	Himachal Pradesh, Haryana, Uttar Pradesh Rajasthan, Madhya Pradesh, West Bengal and Assam
(*b*) Special committee or the executive committee of the council	Punjab, Gujarat
(*c*) Executive officer	Bihar, Orissa, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala and Maharashtra

The municipal councils in Tamil Nadu, Kerala, Andhra Pradesh are also empowered to direct the executive officer to amend the assessment book whenever it appears to them that any person or property has been inadequately assessed, inadvertently or improperly omitted or on account of other reasons mentioned above. However, when a special officer is appointed for any council by the State, the power of the council is required to be exercised by such officer.

When any modification/alteration in the assessment list involves increase in the valuation and assessment due to any of the reasons stated earlier, except when the tax rate is increased, or when the amendment is necessitated for correction of arithmetical or clerical error, it is required that a special notice to the affected party should be given to invite objections, if any, against the amendment. The machinery for hearing the objections and the procedure for their disposal are almost similar to these prescribed for hearing objections arising out of general revision discussed earlier. In Karnataka, however, it is prescribed that when any alteration is made by the chief officer, objections will be heard and decided by the assessor and when such alteration is made by the municipal commissioner, he will also be the revising authority.

Appeals

There are considerable variations in regard to the provisions for appeal against the order of the revising authority, that is the authority which hears the objections against general revision of assessment list before authenticating it or against any alterations or modifications in it subsequently. With the exception of Assam, Bihar, and West Bengal where the decision of the revising authority is final, it would be observed from Table 6 that municipal enactments of Haryana, Himachal Pradesh, Uttar Pradesh, Rajasthan, Punjab and Orissa provide for appeal to lie before District Magistrate/Collector/Deputy Commissioner or to such other officer as may be empowered by the state government. In the case of Gujarat and Maharashtra, the judicial magistrate or the magistrate designated by Sessions Judge; in Karnataka a magistrate designated by the District Magistrate and in Madhya Pradesh, the Civil Judge consti-

TABLE 6 APPEAL AGAINST REVISING AUTHORITY

Revising authority	*Appellate authority*	*States*
(*a*) Council or its committee whose decision is final	—	Assam, Bihar and West Bengal
(*b*) Council or its committee or special committee	(*a*) District magistrate/ collector/deputy commissioner	Haryana, Himachal Pradesh, Uttar Pradesh, Rajasthan and Punjab.
	(*b*) Civil judge	Madhya Pradesh
	(*c*) Judicial magistrate	Gujarat and Maharashtra
(*c*) Municipal commissioner or assistant commissioner appointed by the government for this purpose, if there is no municipal commissioner	Magistrate designated for this purpose	Karnataka
(*d*) Executive officer	Council/special officer appointed by state government for this purpose.	Tamil Nadu and Kerala
(*e*) Valuation officer	(*a*) Appellate Commissioner (appointed by the state government) in consultation with chairman of the council.	Andhra Pradesh
	(*b*) District magistrate	Orissa

tute the appellate authority. In Tamil Nadu and Kerala, the council, or in case a special officer is appointed by the state government in a municipal council, such officer, hears the appeal against the order of the revising authority. In Andhra Pradesh, an appellate commissioner is required to be appointed by the state government to dispose of the appeals in consultation with the chairman of the council.

In Madhya Pradesh, Uttar Pradesh, Rajasthan, Gujarat, Maharashtra, Orissa, Andhra Pradesh, Karnataka, Tamil Nadu and Kerala one of the important conditions before the appellate authority can entertain an appeal is that the amount claimed should be deposited by the applicant. In Assam, no application for review is to be entertained unless the applicant has paid all dues to the municipal council other than the sum which has been enhanced through revaluation or reassessment. In Haryana and Himachal Pradesh, however, the requirement is that all other municipal taxes due up-to-date should be paid before preferring an appeal; while in West Bengal, the payment of the tax based on previous assessment is a prerequisite condition for review of the valuation and assessment.

SALIENT FEATURES

The foregoing description and analyses of machinery for valuation and assessment of property tax in different states reveal the following salient features:

(*a*) With the exception of two States, *i.e.*, Himachal Pradesh and Punjab, in all other states the period within which general revision of assessment should take place is prescribed.

(*b*) The general revision of assessment is the responsibility of the local bodies, except in Orissa, Karnataka and Andhra Pradesh, where an assessor/valuation officer is to be appointed by the state government for this purpose.

(*c*) Within municipal administration, the responsibility for the preparation of valuation/assessment list is entrusted to the executive officer, except in the case of West Bengal, Assam and Orissa where assessors are required to be appointed by the council. The executive officers are either appointed by the state government from amongst its civil servants or from state municipal-cadre or they enjoy considerable protection of their service conditions from the state government. While the degree of general supervision and control of the council over an executive officer varies according to whether he enjoys powers delegated to him by the council or entrusted to him by the statute, most of the municipal enactments, however, do provide for securing their transfer on

passing a resolution by the council with a prescribed majority of votes.

(*d*) The assessing and the revising authority vests in the executive officer in Tamil Nadu and Kerala and in the valuation officer/ assessor in Andhra Pradesh and Orissa. In Karnataka, the revising authority is the executive officer, while it is the valuation officer in Maharashtra. However, the standing committee of the council has assumed this role in Maharashtra because the valuation officers were withdrawn by the state government due to the opposition of the urban local bodies. In the remaining ten states, the deliberative wing of the municipal government constitutes the main component of the revising authority.

(*e*) The appeal against the order of the revising authority lies to the council or special officer in Tamil Nadu and Kerala, to an appellate commissioner in Andhra Pradesh, while in all other states it lies before the District Magistrate or a Judicial Magistrate or a civil Judge.

(*f*) The assessing authority (except where an assessor or a valuation officer is appointed), the revising authority and the appellate authority thus vest in persons who do not possess the technical expertise in the valuation and assessment of property.

INADEQUACIES OF THE ASSESSMENT MACHINERY

The machinery for assessment of property tax has been one of the focal points of almost every commission or committee set up by the central or state governments to examine the local finances or tax administration. Inefficient, inequitable and defective assessment and the consequent loss of revenue is the main theme of their findings and invariably this is attributed to the failure of local bodies in tax administration.

Even though the periodicity of general revision of assessment is prescribed in municipal Acts, "too many local authorities are losing substantial revenue each year due to assessment list remaining more or less static over many years. ."[7] In states where general revision is required to be undertaken on the resolution of local body or on the direction of state government, such resolution or direction often does not emerge for years. The process of revision of assessment often requires additional staff and funds to be provided in the annual budget of the municipalities. Due to paucity of resources and well-equipped staff, the requirement of law is often overlooked. Many of the local

[7]Deva Raj, "Assessment of Property Tax", *Nagarlok*, Vol. VIII, No. 4, October-December, 1976, p. 63.

bodies, particularly in small and medium size towns, do not have a regular assessment department. If the general revision is at all undertaken, the entire operation is carried out by non-technical staff assembled from different departments to create an *ad hoc* organisation and whatever experience is gained by such staff is lost with the dismantling of the organisation after the revision exercise is over. Even when an assessment department is set up on a regular basis, it is often assumed that any municipal employee at the level of an inspector can carry out this task and it is not uncommon to discover intense struggle amongst the municipal staff to get posted to this department, whether regular or *ad hoc*. This gives rise to a crude and unscientific system of assessment with its characteristic features of corruption, inefficiency, and inequity. It is generally felt that the under-assessment varies from 25 per cent to 85 per cent of the annual value. There is another widespread feeling that the under-assessment is largely in respect of properties with high rental value owned by people belonging to the higher income groups and whose potential contribution to tax revenue is substantial; while, on the other side, the small holdings owned by the low income groups whose net share of contribution is marginal, tend to be over assessed.[8]

The involvement of elected representatives is another feature of the assessment machinery that has been frequently criticised. Direct taxes are generally resisted by the tax payers and property tax being one of them, it has the additional potential of causing friction between rate-payers and the local government, in view of the extensive subjectivity, partly inherent in the determination of rental value, but largely caused by the shortcomings of organisation, procedures, methods and persons involved in the assessment machinery. The fact that small amounts of money have to be obtained from a large number of rate-payers, by no means wealthy people, create additional obstacles in generating necessary political will at the local level to impose it or revise the assessment list without incurring the loss of political good will. One of the greatest advantage of local government is that it is near to the citizens. This essential and desirable characteristic, which constitutes one of the fundamental justifications of having the local government, however, makes the elected representatives more susceptible to local pressures and its administration at all levels more open and prone to political or individual influences in its day to day functioning. The observation of the Taxation Enquiry Commission in 1955 that in some states the work to assessment was being done by the councillors,[9] under the circumstances, assumes importance. As early as 1926, the Taxation Enquiry Committee

[8]R N. Tripathi, *Local Finance in Development Countries*, Government of India, Planning Commission, New Delhi, 1967, Chapter VIII, pp. 138-139.

[9]*Report of the Taxation Enquiry Commission, op. cit.*, Vol. III, p. 392.

had recommended that the work of assessment and collection should not be done by persons dependent on the votes of the electorate[10]. Though the task of assessment is now entrusted to an appointed officer, there is still the formal involvement of the councillors in the process of validation of the assessment or at the appeal stage in all states, except in Orissa, Andhra Pradesh and Karnataka. Observing that: "Quite often, any benefits derived from careful assessment are lost at appeal stage", the Taxation Enquiry Commission recommended that no revisional or appellate function should be vested in municipal councillors.[11] In many states, it has been observed that the task of assessment and valuation is now the statutory responsibility of the executive officer or of an officer appointed by either the council or by the state government. Though this is intended to insulate the task from political or other local influences, it does not ensure scientific and sound approach to this vital function. The Local Finance Inquiry Committee in 1951 pointed out that;

> Valuation of property is such a highly technical business that it cannot be entrusted to any person who has not received training, however competent he may otherwise be. There is a great difference between ordinary administrative work and the valuation of immovable properties, particularly properties other than residential houses. In the determination of their annual value so many principles and standards of valuation have to be applied that the work cannot be entrusted even to members of civil services from whom usually Executive Officers of Municipalities are recruited.[12]

Regarding the arrangement of lending by the state government of the services of its officers to undertake periodical revision of assessment, the Taxation Enquiry Commission noted that:

> Quite often the officers whose services are so lent are deputed from the Revenue or other department of government and the deputed personnel have no particular training in or experience of assessment work. Hence assessment remains unsatisfactory notwithstanding that it is done by officers deputed by government.[13]

In states where valuation officers/assessors are drawn from the town

[10] *Report of the Taxation Enquiry Committee*, Government of India, Delhi, 1926, Vol. 7, p. 289.

[11] *Report of the Taxation Enquiry Commission, op. cit.*, p. 392

[12] *Report of the Local Finance Enquiry Committee*, Government of India, Minis ry of Health, New Delhi, 1951, Para 232, p. 90.

[13] *Report of the Taxation Enquiry Commission, op. cit.*, Vol. III, p. 392.

planning and valuation department of the State Government, they, by and large, possess technical experience in the background of valuation for purposes of land acquisition. In Assam and Orissa, the valuation organisation within Municipal Directorate is manned largely by officers with revenue administrative experience. To the extent these measures help in developing and retaining a pool of officers of these agencies with requisite expertise, they represent, no doubt, a considerable improvement over the other arrangements discussed earlier. In all these states however, either the revising authority or the appellate authority still vests in non-technical persons.

CENTRAL VALUATION AGENCY

In view of the inadequacies of the assessment machinery, the Local Finance Inquiry Committee (1951), the Taxation Enquiry Commission (1955), the Committee on Augmentation of Financial Resources of Urban Local Bodies (1963), and the Rural Urban Relationship Committee (1966) appointed by the central government have all recommended the setting up of an independent central valuation agency. While recommending it for all local bodies within a state, the local Finance Inquiry Committee observed that : even in England, where local bodies are tenactious of their rights, the task of valuation has been taken away from them under the Local Government Act of 1948 and vested in the Board of Inland Revenue."[14] It is entrusted to the Rating and Valuation Department of the Board. The role of the proposed Valuation Department *vis-a-vis* the local bodies was elaborated by the Committee when it recommended that:

> Its duty will be to see that Valuation list is corrected and up-to-date for each local body. The Valuation list as prepared by this department should be forwarded to the local body covered and should be published. Any person including the local body itself, will have the right to object to any valuation included in the list. But it will not be open to the local body to alter any entry as made by the Valuation Department. It will have to make a representation against such entry and if the Valuation Department is not satisfied with the objection and the local body or the person making the objection feels aggrieved by such action, it will have the right to appeal to a local valuation court. The decision of the valuation court will be final on points of facts.[15]

[14] *Report of the Local Finance Inquiry Committee, op. cit.*, pp. 90-91.
[15] *Ibid* , p. 91.

While endorsing the above recommendation, the Taxation Enquiry Commission, however, felt that municipal corporations should be excluded because "they are in a position to employ staff which is adequately trained."[16]

The Committee on Augmentation of Financial Resources of Urban Local Bodies does not seem to have maintained any distinction between the municipal corporations and municipal councils in determining the jurisdiction of the valuation agency when it observed that "efficiency of assessment is incompatible with local control of the assessor". The other advantages it stressed were :

> Centralised assessment offers an uncomplicated and effective means of obtaining uniformly high standard of assessment throughout the State, by the use of professional staff following standard methods and procedures under Central direction. Once such a Valuation Department is set up, reassessment of urban properties can be taken up systematically at regular intervals and the cases of unequal and under-assessment which are very common now, can be removed to a great extent.[17]

The argument of the Committee that even local bodies whose limited resources do not permit employment of highly paid qualified valuers, will be able to get the services of the Valuation Department of the state government, however, must be read with the provisions in municipal enactments of most of the states requiring the municipal councils to bear the expenses (salary, allowances, etc.) of officers, including valuation officers/assessors, appointed by the state government and their establishment.

The Rural-Urban Relationship Committee, while reviewing the subsequent progress towards the setting up of the central valuation agency noted the appointment of valuation officers/assessors in some states, observed that "such sporadic attempts do not help to build up experience and expertise in this specialised field. . ."[18] It recommended that:

(*a*) There should be a chief valuation officer in the Directorate of Local Bodies, who should lay down principles for determination of annual value and supervise and control of the Valuation Officers;

(*b*) there should be full time valuation officers for cities with a

[16] *Report of the Taxation Enquiry Commission, op cit.*, pp. 373-374.

[17] *Report of the Committee on Augmentation of Financial Resources of Urban Local Bodies*, Government of India, Ministry of Health, New Delhi, 1963, p. 39.

[18] *Report of the Rural-Urban Relationship Committee*, Government of India, Ministry of Health and Family Planning, New Delhi, 1966, Volume I, p. 98.

population of five lakhs or more. For groups of smaller cities and towns, Valuation Officers should be appointed according to the volume of work;

(*c*) the assessment lists should be prepared by the valuation officer with the assistance of the executive officer/deputy municipal commissioner and published for objections. After deciding the objection, the valuation officer may finalise the list;

(*d*) appeals against assestment made by the Valuation Officer shall lie to the Chief Valuation Officer ;

(*e*) an appeal against decision of the Chief Valuation Officer shall lie to the District Judge.[19]

These recommendations, though elaborated the structure and function of a central valuation agency (CVA), made a departure from those given by the Local Finance Inquiry Committee in three aspects : (*a*) while the RURC stipulated the involvement of municipal administration to assist the valuation officer, the LFIC expected the CVA to be free of this dependency insofar as it allowed the local body the right to appeal against the order of assessing authority and the revising authority ; (*b*) whereas LFIC recommended the setting up of a local valuation court as an appellate authority whose decision was to be final on points of facts, the RURC provided for the appeal to lie before the Chief Valuation Officer and then to the District Judge ; and (*c*) the LFIC ruled out any alteration of valuation list by the local body and required the CVA to keep it correct and up-to-date, while the RURC entrusted this responsibility to the chief executive of the municipal council, who could amend the list to include new buildings constructed and additions/alteration to the existing buildings made since the last valuation.

The granting of the right of appeal to the local body against the order of the valuation officer is less likely to be functional when the local body is required to assist the valuation officer in his task. On the other hand, the merits of an assessment tribunal as an appellate authority over the civil courts have been frequently stressed in giving cheap and speedy remedy, based on technically better informed judgement.[20] The Central Valuation Officer, as an appellate authority, recommended by the RURC will not only make the CVA preoccupied with quasi-judicial functions at the cost of rendering other services which are expected to flow from it, it will also make the availability of the remedy costlier and remote to a large number of tax payers. There is a distinct advantage in entrusting the authority to the executive officer of the local

[19] *Report of the Rural-Urban Relationship Committee, op. cit.*, pp. 98-99.

[20] For further discussion on this issue, see M.K. Balachandran, "A Case for Property Tax Assessment Tribunals", *Nagarlok*, Volume VIII, No. 4, October-December, 1976, pp 47-52.

body to amend the list between two general revisions. The valuation officer, or any local valuation agency independent of the local body, will find it not only difficult but also quite expensive to develop an organisation structure as offered by the local body, whose limbs would extend to each locality and around which an information system could be installed to detect and report the building activity.

While the setting up of the CVA as a department at the state level has been recommended by all; the RURC was specific in suggesting that this agency should be located in the Directorate of Local Bodies. The arguments in favour of CVA can be summed up as follows :

(*i*) It will insulate the process of assessment from local pressure. It is assumed that once the assessment machinery at local level is free from the control of the local body, the local pressures will be reduced considerably;

(*ii*) By having a state-wide cadre of officials responsible for valuation task, it will be possible to attract better qualified persons and to train and develop them systematically as professionally skilled manpower for this purpose.

(*iii*) The agency would develop uniform norms and standards for determination of rental and capital values (whatever be the bases of assessment) of various types of properties, prepare an assessment code and revise them from time to time.

(*iv*) Collection, analysis and dissemination of data regarding the behaviour of rental and capital values in urban areas will be an important function of the CVA. It has been ignored up till now. It will provide not only a sound basis for valuation decisions (reducing the level of subjectivity) and training of valuers, but, also it can help in securing a better cooperation between tax-payers and tax administration.

(*v*) Since the urban property is the basis of wide range of taxes such as income tax (income from property), wealth tax, gift tax, estate duty, capital gains tax, etc., the availability of the authenticated data with CVA will facilitate coordination amongst various agencies carrying out almost similar exercise independently of each other, and thus help in reducing the inconsistencies in valuation for different purposes.

West Bengal is the only state in India which has passed an enactment in 1978 to create a Central Valuation Board with a view to obtaining uniformity in valuation, objectivity in assessment and securing a higher yield of municipal revenue throughout the State.'[21] It stipu-

[21] The West Bengal Central Valua ion Board Act, 1978: Statement of Objects and Reasons.

lates the setting up of a Central Valuation Board and a Valuation Authority for a municipal corporation, a municipality or a group of municipalities. The Board is to comprise of a chairman, who has been an officer of state government not below the rank of a secretary, and two members, one of whom should have spent not less than seven years in judicial service and also has the experience in municipal affairs and the other member should possess a degree in civil engineering, having knowledge and experience in the work of valuation and assessment for not less than seven years. A similar composition of the Valuation Authority is prescribed with the only difference that the chairman of the Authority should not be below the rank of a deputy secretary. The expenses of the Valuation Board and the Valuation Authorities of different areas and their establishments are to be borne out of their respective funds to which the local bodies within their jurisdiction will make payment. The other salient features of the enactment are :

(*i*) The Board and the Valuation Authorities will carry out general valuation in accordance with the Bengal Municipal Act, 1932 or the Calcutta Municipal Act, 1951 in areas to be notified for each one of them by the State Government.

(*ii*) Revising authority will be the Board or the Authority as the case may be. Thus, the revising authority lies with the assessing authority.

(*iii*) The appeal against the decision of the revising authority lies before a Review Committee which comprises of : (*a*) the President, who is the judicial member of the Board or the Authority, and (*b*) the Councillor of the ward within which the property lies.

(*iv*) In case of a difference of opinion between the members of the Review Committee, the matter is required to be referred to the Board or the Authority whose decision shall be final.

(*v*) Local body does not have the right to appeal against the valuation.

Thus we notice that the Valuation Board and the Valuation Authority are practically independent of each other, each operating as a valuation agency for an area to be notified by the State Government. The Central Valuation Board is, therefore, a misnomer. What the enactment provides is, in fact, the setting up of a local valuation agency, which also constitutes an Assessment Tribunal for hearing appeals against the general valuation of properties carried out by the agency. It is not clear whether the valuation authority would, once set up, continue to function after completing the valuation and disposing of appeals, or it will cease

to exist thereafter. The Act is also silent on the organisation that will amend the list to include new buildings constructed or alterations and additions to the existing building after the general revision is over. It is, therefore, assumed that it would continue to be exercised in accordance with the provisions of the existing Bengal Municipal Act, 1932 and the Calcutta Municipal Act, 1951. It is doubtful whether the structure and functions allocated to the valuation organisation, *i.e.*, the Valuation Board or the Valuation Authority, would enable the flow of advantages discussed earlier of a central valuation agency other than reducing the local pressures emanating from the councillors.

CONCLUSION

The existing organisational framework for valuation and assessment of property is laid down in the municipal enactments differ from state to state in allocating the authority to the municipal council, the executive officer or to the valuation officer/assessor or any other officer appointed by the council or the state government for this purpose. The broad pattern, however, reveals that while in the southern states, the valuation and assessment process is substantially free of the council, in other states the formal involvement of the councillors, particularly, in the composition of revising or appellate authority is substantial. Ever since 1951, the advantages of a Central Valuation Agency have been emphasised for insulating the valuation process from local pressures, in providing technical expertise to the task and in securing the performance of other nodal functions which are necessary for evolving sound bases for tax administration. It is difficult to expect any disagreement over these advantages of a CVA, but they do not undermine the importance of the issues which surround the determination of the structure and functioniug of the Agency. Should the Agency be statutory body or a departmental one? As an assessing and revising authority, should it have appellate jurisdiction or this function should be assigned to an assessment tribunal? Should the Agency be manned by a separate cadre of officers or should they be drawn from other services of the state government on transfer? What should be its local structure and operating links with local bodies? Should the valuation officer belonging to the Agency be located within the municipal administration or should he have his own establishment to carry out the valuation? Should the CVA cover all the urban local bodies or should the municipal corporation be excluded from its jurisdiction? What should be the links between the assessment and collection machinery? Some of the inconsistencies in the recommendations of the reports of the committee, including the commission, advocating the setting up of a CVA owe their origin to one or more of these issues, which have remained

dormant. Consequently, except in the case of Assam and Orissa, other states have not set up the CVA. While in Assam, the valuation organisation lacks statutory basis, in Orissa, it has been incorporated in the municipal enactment. In West Bengal, the Central Valuation Board Act, 1978, has yet to become operative. The trend of reform in other states indicates a major thrust to eliminate or substantially reduce the role of the councillors in the valuation process. In southern states, the appellate jurisdiction of the council is to be exercised by an officer of the state government appointed for this purpose. In most of the states, along with the constitution of municipal cadres for executive officers, and/or their appointment by the state government, their role has been strengthened in the valuation and assessment process. Reforms introduced seem to be primarily directed towards eliminating those local pressures on valuation process which emanate from the councillors, while the other proclaimed advantages of a CVA have been largely ignored. □

Municipal Property Tax Rate Structures: A Critique

K.S.R.N. SARMA

THE AVAILABLE literature on property taxation in India, the reports of the various official enquiry committees and investigations of other research, bear ample evidence to the good deal of discussion on the assessment problem, for it is generally considered to be the kingpin of reform effort in the area. The other aspects of the tax, in comparison, do not seem to have received due appreciation. A case in point is the rate structure. In this note an attempt is, therefore, made to compare the municipal property tax rate structures in vogue in different states and discuss the issues they pose *vis-a-vis* the reforms for improvement.

EXISTING SYSTEM

The term 'property taxes' is often used generically to refer several municipal imposts with a common base of either annual rental or capital value of land and buildings. The range includes, general property tax (house tax); water tax; sewerage tax; conservancy tax; latrine/scavenging tax; lighting tax; and fire tax. In actual practice, however, the composition and scope of these various imposts are observed to vary from one state's municipal statute to another and at times between that of corporations and the municipalities within a state. An idea about the variations in the composition (and also in the nomenclature) of the property taxes in different states can be had from the data given in column 3 of the Appendix I. Property taxes are compulsory under statutes applicable to the municipalities in Andhra Pradesh, Haryana, Karnataka, Maharashtra, Rajasthan and West Bengal and also under the statutes of most of the corporations. In Tamil Nadu and Kerala, though the taxes are not made statutorily compulsory, they constitute the mainstay of the municipal revenues. In Bihar, Gujarat, Himachal Pradesh, Madhya Pradesh, Orissa, Punjab and Uttar Pradesh, property taxes are discretionary levies of the municipalities. Under the Assam Municipalities Act, 1956, the general purpose holding tax is discretionary, but as a consequence of an amendment introduced in section 68A of the Act, in 1966, the

'service taxes' become compulsory wherever the services concerned are provided by the municipality. The imposition of a service tax under almost all the statutes is, subject to the general qualifying condition of making available the service concerned at certain standard in the area of location of the property, compulsory. A second distinguishing feature noticed in respect of the 'service taxes' is that, they are leviable from all properties, whichever availed those services, irrespective of whether they are subjected to the general purpose property tax or exempted from it (as is the case with the Central and State Government properties and that of public institutions). Thirdly, there is no general bar on levy of a service tax, while still charging the service either on measurement of actual consumption or on some other basis. In actual practice, however, this kind of tax and price charge system is prevalent only in the corporations. In most municipalities, it is generally reported that taxes and price charges are treated as substitutes to each other. Certain statutes including the Karnataka Municipalities Act, 1964; the Hyderabad Municipal Corporation Act, 1955; Karnataka Municipal Corporation Act, 1976; Delhi Municipal Corporation Act, 1957 specifically bar the above kind of simultaneous tax and price charge arrangement. Most other statutes do not appear to have any such bar.

Now coming to the subject proper of the property tax rate structures, a general feature noticed in almost all the statutes governing the municipalities is the stipulation making it obligatory for a municipality to refer the fixation and alteration of the rates to the State Government for final approval and to comply with the directions that the latter might issue in that matter. Some of the notable exceptions to this general rule include the municipal statutes of Andhra Pradesh, Assam, Kerala, Maharashtra and Tamil Nadu, where the municipal bodies, provided they are not indebted, have powers to alter the rates of the tax at their discretion within the limits prescribed under the statute or by the rules framed thereunder. As regards the corporations, they seem to enjoy relatively greater autonomy in the matter.

Rate Structure Limits

This above common feature notwithstanding, significant variations are observed over the rate structure provisions in different statutes. Some statutes stipulate the maximum and minimum of the rates of the tax as percentage of the annual rental or capital value, in some either one side limit or no limit is indicated (*vide* column, 4 to 7 of Appendix I). Thus under the Bihar and Orissa Municipalities Act, 1922, the maximum ceiling on the rates of tax are fixed at 12.5 per cent in the case of general holding tax, for water tax at 12.5 per cent; lighting at 3 per cent; latrine (or drainage) tax at 7.5 per cent. The Himachal Pradesh Municipal Act, 1968 limits the rate of general tax on buildings and land to 12.5 per cent. The

Karnataka Municipal Act, 1964, while fixing the maximum ceilings on the rates of component taxes has also fixed the minimum limit on the rate of the aggregate of all those taxes. There maximum limits for the tax on buildings and land is 10 per cent, for special sanitary tax is 3 per cent, for general sanitary tax it is 4 per cent and the maximum limit on aggregate of all property taxes is 12.5 per cent in the case of town municipalities and 17.5 per cent in the case of city municipalities.[1] The position appears to be the quite opposite under the Kerala Municipal Act, 1960. Here the minimum limits on rates of component taxes are fixed as: general purposes tax, 5 per cent; lighting tax, 2 per cent; and sanitary tax, 3 per cent. No limits are prescribed in respect of water tax, but it is stipulated that the aggregate rate of all the property taxes can vary over the range of only 10 to 15 per cent of the annual value. In the case of Haryana Municipal Act, 1973, where only a general tax on buildings and lands is allowed, the maximum and minimum in respect of it are fixed respectively at 15 and 7.5 per cent. Similar is the provision under Punjab Municipal Act, 1911. The M.P. Municipal Act, 1961, fixed the maximum and minimum rates of general purpose tax respectively at 12.5 and 5 per cent of the annual value. Under the Orissa Municipal Act, 1950, the maximum ceilings on the various components the property taxes are; tax on holdings, 10 per cent; latrine tax, 10 per cent; drainage tax, 10 per cent; and lighting tax, 5 per cent. The Bengal Municipal Act, 1932, stipulated that the holding rate, water rate, lighting rate, conservancy rate should not exceed, 7.5 per cent, 10 per cent,[2] 3 per cent and 10 per cent respectively of the annual value of the holding. As regards the corporations, it is observed that the Hyderabad Municipal Corporation, Act, 1955 stipulated the maximum limits on the aggregate of all property taxes at 20 and 15 per cent respectively. These limits under the Kerala Municipal Corporation Act, 1961 are 25 and 15 per cent respectively. Under the Madhya Pradesh Municipal Corporations Act, 1956, the maximum and minimum rates of general property tax which is envisaged to be levied as a consolidated rate, are 33.5 and 15.5 per cent respectively. Under the Madras City Municipal Corporation Act, 1919, the maximum and minimum ceiling on the aggregate tax rates are 25 and 15.5 per cent respectively and under the Uttar Pradesh Nagar Mahapalika Adhiniyam, 1959 the limits are respectively 25 and 15 per cent. The permitted range of rates under the Gauhati Municipal Corporation Act, 1969, is 15 to 25 per cent. Under the Karnataka Municipal Corporations Act, 1976 it is 20 to 25 per cent. The Delhi Municipal Corporation Act, 1957, provided for

[1]The statute classifies the urban areas in the state (other than corporations) into cities and towns, depending upon their population size, etc.

[2]The statute specifies a higher rate in respect of Howrah, Darjeeling and Kurseong municipalities.

a range of 10 to 25 per cent. Under the Bombay Provincial Municipal Corporations Act, 1949, the minimum limit on the rate of general purpose tax is fixed at 12 per cent. Under the Bombay City Municipal Corporation Act, 1888 not only the maximum and minimum limits on the rate of general tax are fixed at 21 and 8 per cent respectively, but those limits are also fixed in respect of fire tax at $\frac{3}{4}$ and $\frac{1}{8}$ per cent. In addition, there is a maximum ceiling on the rates of *halalkhor* (scavenging) tax at 5 per cent. The Patna Municipal Corporation Act, 1951, stipulates only the maximum ceilings on the component taxes. They are for general holding tax 12.5 per cent; water tax 12.5 per cent; scavenging tax (drainage tax) 10 per cent, and lighting tax 3 per cent. Under the Punjab Municipal Corporations Act, 1976, a maximum ceiling on the rate of only the general tax is stipulated at 15 per cent.

Speaking of the consolidated levy of the property taxes, a statutory directive to that effect exists under the Calcutta Municipal Act, 1951, as already stated, and also under the Maharashtra Municipal Act, 1965. In some other legislations it is an optional provision and these include the enactments applicable to the municipalities of Bihar, Gujarat, Karnataka, Madhya Pradesh and Uttar Pradesh. But it is generally reported that this option is not being extensively adopted.

Progression and Exemptions

Property tax in a good number of municipal enactments is envisaged to be levied at a fixed proportional rate of the annual values. A few, however, have provision for the levy of the tax according to progressive rates, the rates of the tax increasing along with the annual value of the property concerned. Thus, under the Calcutta Municipal Act, 1951, the rate structures applicable to different annual rateable values of the properties are as follows:

Range of the Annual Rateable Value	*Tax rate (Percentage of the A.R.V.)*
Less than Rs. 1,000	15.5
Rs. 1,000—3,000	18.5
Rs. 3,000—12,000	22.5
Rs. 12,000—15,000	27.5
Rs. 15,000 and above	33.5

The other enactments which have similar enabling provisions for the levy of progressive tax according to graduated rates include those applicable to the corporations of Hyderabad, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh.

An aspect that is usually regarded as close to the progressive tax rates, is the exemption of properties with low annual values from the

levy. The position in this regard seems to vary significantly in different statutes. In some, there is no clear directive and in others where it exists, the exemption limits (which is generally applicable only in respect of the general purpose tax and to the owner-occupied properties) vary in the range of just Rs. 6 to Rs. 120, the highest (*vide* column 2 of Appendix I).

Special Rates

The provisions for the application of special rates of tax in respect of certain types of properties also vary from state to state. It is general knowledge that at the valuation stage, a number of concessions as per specific statutory guidelines or by convention are applied to the reported (market) rental or capital values. But once the assessments are finalised, almost all the statutes require the properties with equal annual values to be treated equally for purposes of application of tax rates. But a few conspicuous exceptions to this general rule are to be noticed. For example, both the Gauhati Municipal Corporation and the Assam Municipalities Acts direct the discounting of annual values by 25 per cent in the case of owner-occupied properties for the determination of the rate and tax applicable. Some statutes, including those of Gauhati Municipal Corporation and the Bombay Provincial Municipal Corporations, permit charging of general purpose property tax in respect of buildings used for certain classes of trades, etc., at a higher rate not exceeding half per cent of the one otherwise applicable. In the case of Calcutta Corporation, a 50 per cent additional cess on property tax is levied in respect of premises used for commercial or non-residential purposes. Application of conservancy tax at special rates or on actual cost basis is permissible in respect of large buildings, premises, such as, clubs, hotels, etc., under the statutes of the corporations of Hyderabad, Patna, Gauhati, and Delhi and the municipal legislation of Maharashtra. Yet another interesting provision is the one enabling the variations in water rates according to the distance of the property from public stand post and also whether a communication pipe for private supply is provided on the premises. Enabling provisions of the above type exist under the enactments applicable to the municipalities in Assam, Orissa and that of Patna corporation. Under the Calcutta Municipal Act, 1951, the location of the properties is one of the criteria for application of special rates. Thus the properties in the *bustees* (slums) are charged at the special concessional rate of 15.57 per cent for properties with annual value of Rs. 1,000 or less and at 18.5 per cent for properties with annual values more than Rs. 1000. A new innovation in the proposed Calcutta Municipal Corporation Bill, 1980, is the provision of a rebate of 25 per cent to the newly constructed houses used exclusively for residential purposes for a duration not exceeding 3 years [section 167 (5)]. This is intended to

encourage new house construction. This is in addition to the provision in section 169(1) of the Bill, that premises used for self occupation would enjoy a rebate in the assessment which on a sliding scale, varying from 30 per cent for a property of a valuation of Rs. 600 or below to 1 per cent for one with a valuation of Rs. 18,000 and above.

The foregoing account clearly brings out that the major issues for critical consideration in any effort for reform of property tax rate structures would centre around:

1. Adoption of a consolidate rate in place of several imposts on the same tax base.
2. Statutory specification of the maximum and minimum of the rates.
3. Incorporation of progressivity in the rates and the exemption from levy of the properties with low annual value.
4. Application of discriminatory rate structures to properties according to their use, location, etc.

The discussion on these various issues have necessarily to be with reference to the parameters provided by the generally accepted canons of property taxation. Here they may be adopted as: (*a*) maximisation of the revenue yields, (*b*) unambiguity and convenience in administration, (*c*) incidence according to the paying capacity, and (*d*) supplementation of efforts made at various levels for orderly urban development.

SEVERAL TAXES *Vs.* A CONSOLIDATED TAX

The justification for several municipal imposts on property with different service levels could be given as follows. A good number of municipal services are in the nature of 'merit goods'. In most cases it is not possible to charge the price from the identifiable beneficiaries strictly on the basis of either actual consumption or some other norm. Even in the cases where charge by measurement is feasible, pricing on costs basis is not an easy task because of the cross subsidisation that is usually warranted. In both the cases, taxes would be the most convenient and economical form of revenue realisation. For, the 'services taxes' are chargeable along with the general purpose property tax. This arrangement incidentally helps the promotion of equity according to the benefit principle of taxation. Suitable tax concessions could be given to the properties situated in the areas where adequate standard of the municipal service concerned could not be made available. "It would obviously not be proper to charge the entire body of rate payers for services which

benefit only a particular area".[3] As the service taxes (particularly water tax and scavenging tax) are realisable from all the properties which availed the service, irrespective of whether they are exempted from the general property tax or not, these taxes are a facility to mobilise extra revenues. Lastly, the statutory apportionment of tax revenues under different 'service heads' would help to promote better accounting and pricing disciplines in respect of these services. The above arguments, at first sight, may appear very logical. But the basic tenet of the entire approach is unsound in theory and also cannot be rated very highly as a strategy as far as the promotion of the revenues and equity objectives of taxation are concerned. The principle of *quid-pro-quo* latent in the above approach is inconsistent with the universally accepted philosophy of tax.[4] The principle, for argument's sake, could as well be logically extended to interpret that individual properties which do not require a particular municipal service for claiming exemption from the tax. In fact, the provisions under the Assam, Kerala, Orissa, Madras and Bengal Municipal Acts for granting concessions in respect of the latrine and the scavenging tax to the properties with flush type latrines or some other private arrangements for removal of night-soil, etc., appear to endorse the extended logic of service tax in practice. As far as equity, according to the benefit principle is concerned, it is largely being taken care of at the assessment stage itself, for the properties in the areas with inadequate municipal services generally fetch lower rents and this is in turn reflected in the tax assessed also. Thus, there does not appear to be any need to have an additional avenue for granting concessions in the form of lower tax rates. Further, the various services after which these different property taxes are labelled, constitute the obligatory functions of the municipalities. So whatever concessions that are to be provided would, at best, be transitory. Just for providing concessions in the event of inadequate service one need not have separate service taxes. The requirements can be easily accommodated through suitable administrative actions. In any case, the equity according to the benefit principle is not the same as the equity of incidence according to the principle of paying capacity, which is a prime canon of taxation. The former certainly cannot take precedence over the latter. The field studies have, no doubt, indicated a high degree of correlation between the income of the *residents* and the quantum to their demand for municipal utility services.[5] But a service tax-based annual

[3] *Report of the Local Finance Inquiry Committee*, Delhi, Government of India, Manager of Publications, 1950, p. 136.

[4] "Minutes of Dissent", by Chunilal D. Barfiwala in the *Report of the Local Finance Inquiry Committee, op. cit.*, p. 368.

[5] G.K. Misra and K.S.R.N. Sarma, *Distribution and Differential Location of Public Utilities in Urban Delhi*, New Delhi, IIPA, 1978, p. 190.

values might not be able to achieve the required regulatory objectives in the same fashion as, say, a discriminating pricing system could do. The service taxes can be used only as supplement to the efforts in the price-charge system where that is feasible. Even then, the arguments favouring separate service taxes have still to be weighed against the two distinctive advantages of a single consolidated rate of property tax. These are administrative simplicity and greater scope for the introduction of graduation in the rates. As far as the tax payers are concerned, it makes little difference to them whether the amount of the tax they have to pay is in the form a single rate or is against several imposts. But as far as the administration is concerned, a single rate could be expected to bring in considerable savings of manpower and costs in the preparation servicing, and posting of bills, revenue recoveries, etc. About the advantages in accounting and pricing mentioned in respect of the several 'service taxes', the same could also be derived under the single property tax system, through appropriate guidelines incorporated in the statutes.

STATUTORY MAXIMA AND MINIMA OF RATES

It is observed that in the cases where the statutes stipulated the maxima and minima of the property tax rates, (either in respect of individual or on the aggregate of the taxes), they are generally high. Also in states, like, Andhra Pradesh and Tamil Nadu, where property tax is the main stay of municipal revenues, the rates of the tax are observed to be fairly high, though there is no statutory directives about the minimum. But in other cases the rates of the property taxes appear to be relatively low (*vide* Appendix II a and b). Therefore, it it suggested that in all the cases the statutes should lay down the maxima and minima of tax rates.[6] An important rider to this suggestion is that once the limits are statutorily fixed, the municipalities should enjoy autonomy in the determination of actual rate levels. Unfortunately, the municipalities in a good number of states are at present required to consult and obtain permission of the State Government at every stage of rate determination. It is generally agreed that such controls are not conducive for the growth of financial discipline among the municipalities.[7] An added advantage of the suggestion made is that they facilitate a better state supervision over the municipalities in the matter of actual revenue collections and in adjudging the revenue needs of different municipal bodies and dispensing the revenue supporting grants.

[6] *Report of the Local Finance Inquiry Committee*, 1951, *op. cit.*, p. 74.

[7] *Report of the Rural Urban Relationship Committee*, New Delhi, Government of India, Ministry of Health and Family Planning, 1966, p. 117.

PROGRESSIVE RATES

Progressive rate structure in property taxation is suggested to promote the equity in the tax incidence and also to make the yields more elastic. The potentialities in these two respects are, however, doubted by some. The Taxation Enquiry Commission (1953-54), for instance, was against the introduction of progression in the property tax of municipal bodies in general as it did not rate very highly the utility of the proposal in practice.[8] The Commission, however, did not oppose giving the suggestion a try in the municipal corporations and also in bigger municipalities.[9] The arguments advanced against the progression in property tax are broadly as under. Property tax is an impost only on one category of property owners, *i.e.*, those of urban land and buildings and so discriminatory against those owners, in comparison, owning other types of property, such as, shares, jewellery, etc. A progressive property tax is likely to further this discrimination; for, among the latter there could be found not only the bigger investors and property dealers but also those whose main form of possession or source of income is the urban immovable property.[10] In the case of owner-occupied properties, as no rental incomes in money terms are derived, the basis of tax is purely hypothetical. Further, unlike in the case of income tax, there is no provision in property taxation for giving remission in respect of loans incurred, or hypothetication of other property made in the creation of the urban land or building.[11] Another point to be noted is that in the determination of property tax burden, the annual values of the properties are separately considered, but not the total of the annual values that are accruing to a particular citizen from all the urban lands and buildings he owns. More than all these, a rental income of a property owner is generally observed to be uncorrelated to his income from all sources and, thus, his paying capacity. Under the circumstances, it is not feasible to operate a system of property levies that takes into account the variations in the ability to pay with any reasonable degree of success.

As regards the scope for mobilisation of additional revenues, the argument is that the pursuit of equity and progression would imply a relatively high exemption limit and also pegging down of the rates in respect of annual valuations at lower levels. But "both the exemption and lower rates will, for the smaller municipalities, imply loss of revenue which it will be impracticable to make up by higher rate on the

[8]*Taxation Inquiry Commission (1953-54)*, Vol. III, New Delhi, Government of India, Ministry of Finance, 1955, p. 380.

[9]*Ibid.*, p. 380.

[10]*Ibid.*

[11]"Note of Dissent", by Chunilal D. Barfiwala in the *Report of Local Finance Inquiry Committee, op. cit.*, p. 363.

relatively few bigger properties."[12] In the case of properties whose annual values fall in the marginal range of various slabs the wide gaps in the tax burden might induce the owners to resort to unethical practices to get lower assessments and thus the application of a lower grade of rates. On this account also, the revenues could decline. Unlike the fixed proportional rate which is easily understood by the clients and simple to administer, progressive rates might lead to administrative complications and thus to higher costs of collection.

An examination of the above various arguments may now be taken up; but, at the outset, two points need to be recognised as part of the reference setting. The first is that property tax is not a tax on rental incomes as such, but a tax on the property itself, in the fashion similar to the central estate duty. This, coupled with the fact that property tax is levied by a body of the government at the lowest level, should make it clear that the task of ensuring equity in tax incidence as between the owners of various types of properties and also within the owners of urban land and buildings with different total annual rental incomes cannot be construed to be falling under the ambit of property taxation. In any case, the proposition is too wide an expectation for a local government body to accomplish. These equity issues are, in fact, the prerogative of the national-level government and could rightly be expected to be managed under various provisions of the central wealth tax and income tax legislations. The role that could be envisaged to the property taxation in the above is purely that of a supplemental direct tax. The second point to be noted is that whichever base is adopted in respect of property tax, whether it is the annual rental value, capital value or some other, it would be too much to expect it to reflect all the facets of the intrinsic value of the property for incorporation in the tax process. In the case of rental values, as has been pointed out, imperfections in the rental market are caused by various extraneous factors, such as, rent control provisions, etc. So, the market values are generally no reflection of the true occupancy values. A plausible deduction from this could be that the inequitiveness in property tax incidence manifest largely from the inability of the tax base to incorporate the various facets of property values.

With the above postulations of property taxation in the general reference setting, an evaluation of the merits of progressive rates is attempted with the help of the data from the field. Here, it is noted that, since the alternative mostly suggested is the proportional rate, an assessment in relative terms would suffice. First to be considered is the equity aspect. For this purpose, the data about rents and incomes of the occupiers from two different settings are presented in Tables A and B. In the first situation, it is to be observed that as the income level increases, the percentage

[12] *Report of the Taxation Inquiry Commission*, Vol. III, *op. cit.*, p. 380.

of the income spent towards rent and taxes decreases. If this kind of income-rent distinction pattern could be assumed to be held true in respect of urban property owners in general, then a proportional rate of taxation is evidently regressive. Thus, progressive rates could help to make the tax incidence more equitable. On the other hand, if the rent and income distribution of the property owners are uncorrelated in the pattern, as indicated in Table B, then it is difficult to make positive assertions about the advantages of progressive rates over that of proportional rates and *vice versa*. Thus, the data reported gives ample indication, if not of any thing else, about the possible wide divergencies in the field situations and the potential hazards of relying on progressive property tax rate as a tool to promote equity objectives.

As for the criticism that under the progressive rates system, steep variations in the tax burdens are likely to occur in respect of properties at the marginal ranges of different rate slabs, the difficulty in that regard, as it has been recently suggested, could be considerably minimised through adoption of a straight line method of fixing the progressive rates.[13]

Next we may proceed to the examination of the likely impacts of the rate structure options on the revenue mobilisation objectives. The apprehension that the pursuit of progressive rates might entail revenue losses on account of the implications towards the high exemption limit and the pegging down of the rates in respect of lower annual values is not sustainable in the face of the facts as reported from the field. It is a general observation that a large percentage of urban dwellers do not own land and buildings.[14] So a property, however small be its rental income, cannot justifiably claim the exemption.[15] It may be further

[13]The suggestion to this effect was made by R.M. Kapoor in "Finances of Calcutta Corporation: Problems and Prospects", *Nagarlok*, Volume IX, No. 1, January-March, 1977, pp. 53-74, and it is incorporated under the section 167 of the new Calcutta Municipal Corporation Bill (1980). It is proposed to have three sets of rates of property tax. For the properties with the annual value of Rs. 600 or below the rate of tax applicable is 11 per cent and in the case of properties with the annual value of Rs. 18,000 and above, the rate of tax is 40 per cent. But for the properties with annual values in the range of Rs. 600 to 18,000, the rate of tax is arrived at by first dividing the annual value concerned by 600 and then adding the quotient (rounded off to the nearest first decimal) to 10.

[14]According to the Census of India, 1971, the percentage of owner-occupied households in the total in the various major cities are as follows: Bombay 14.4, Calcutta 16.6, Madras 27.0, Delhi 48.0, Hyderabad 40.0 and Kanpur 16.7 *vide* Housing Tables, Census of India, 1971, Vol. I Part IVB, New Delhi, Government of India, Registrar General of India, 1975, pp. 225-323.

[15]*Local Finance Inquiry Committee*, for instance, *op. cit.*, p. 76, did not favour the exemption of any property from tax on the basis of annual value but the subsequent report of the *Rural-Urban Relationship Committee* (*Report*, *op. cit.*, pp. 99-100) advocated for a specific statutory provision in the matter.

reiterated, that the equity that is sought to be ensured is of intra class type, *i.e.*, among the properties themselves (with all the known hurdles in its operationalisation). Therefore, in the derivation of the progressive property tax rates one need not entirely be guided by the equity in the conventional sense. The pointed submission is that in moulding the rate structure, other criteria, like, yield, etc., might also be taken as relevant without, of course, significantly affecting the equity considerations. The feasibility of this proposition in practice may be illustrated with the help of the data taken from a class I municipality in Haryana, where property tax is presently levied at a fixed proportional rate. In Table C, the distribution of tax-payers according to their tax liability and their share of contribution to the total current demand are presented. It may be noted that 91.43 per cent of the tax payers contributed just 38.89 per cent of the tax demand; 8.22 per cent to the 25.59 per cent of the tax demand and just 27 constituting 0.35 per cent of the total tax payers accounted for as high as 35.66 per cent of the tax demand.[16] From this data, it could be seen that by slightly increasing the tax rates at the higher levels of the annual values, the tax yields could be substantially increased. Alternatively, if it is desired to raise the exemption limit marginally to give tax relief to a substantial number of property holders, it can be done without affecting the revenues significantly.[17]

It is also observed in respect of the municipality under consideration that 84 per cent of the tax defaulters fall in the tax range of Rs. 12.50, but their share of tax arrears in the total is not more than 53.5 per cent. However, 16 per cent of defaulters who belong to the high tax ranges accounted for as much as 46 per cent of the arrears. Therefore, increas-

[16]Similar pattern is also noticed in respect of property tax payers in the case of Calcutta Corporation as given below:

Annual rate value	*Tax demand as percentage in the total*
Less than Rs. 1,000	6.50
Rs. 1,000—3,000	16.80
Rs. 3,000—12,000	19.30
Rs. 12,000—15,000	20.00
Rs. 15,000+	37.47

Further it is observed that out of 12,000 holdings that are subject to tax, as much as 50 per cent of the tax is realisable from the top 2000 properties.

SOURCE: Calcutta Municipal Corporation 1970-71. Cf. Rakesh Mohan, Indian Thinking and Practice with urban Property Taxation and Land policies, *op. cit.*, p. 29 and 36.

[17]It is stated that the sliding rates of tax under the proposal of Calcutta Corporation Bill, 1980, that all rate payers with annual valuations of Rs. 7,000 and below would henceforward carry lower tax burden, despite varying from 0.3 to 5.3 per cent reduction, but that the rationalisation of rates at the higher annual valuation are expected to facilitate a net surplus of Rs. 1.90 crores. *Vide The Calcutta Municipal Gazette*, Calcutta Corporation, Vol. XIII, No. 4, May 17, 1980, p. 1604.

TABLE A DISTRIBUTION OF RENTS AND INCOMES OF OCCUPIERS IN CALCUTTA (1963)

Monthly income levels of the family	*Rent and taxes as percentage of income*
Rs.	
Upto 100	16.3
101--200	13.8
201—350	14.5
351--700	13.3
701—1,200	12.8
1,200 above	10.4

CF. : Rakesh Mohan, *Indian Thinking and Practice with Urban Property Taxation and Land Policies—A Critical Review*, (mimeo), Princeton University, 1974, p. 28.

SOURCE : *Survey of Housing Conditions in Calcutta Corporation in 1963*, Government of West Bengal, Calcutta, 1967.

ing the exemption limit in this case may as well lead to the administrative efficiency in the collection process. For the savings in manpower that could be effected in the preparation of bills, serving them, etc., to a large number of tax payers whose contribution towards total net tax collections is not very high, could as well be used to improve the collections from defaulters in the high tax brackets.

DISCRIMINATORY RATE STRUCTURE

The provisions in some of the statutes, as already mentioned, for special rates of property tax to deal with certain specified categories of properties (according to use, etc.) is a clear enough recognition of the need to mould the tax rate structure to capture as many typifications of properties as possible and the inadequacy of the present single base and rate structure combination to meet the felt objectives. Properties cause various social burdens according to the use they are put and the municipal government being the most proximate to the people are often called upon to shoulder a fair share of those social burdens in the form of additional civic amenities. Therefore, the revenues that are to be raised by a municipality could justifiably be expected to be shaped after these expenditures requirements or, alternatively, by utilising the fiscal instruments available to minimize the recurrence of various social burdens requiring environmental protection, conservation of energy, construction of new houses, etc. It implies the need for adoption of a larger

TABLE B DISTRIBUTION OF LOCALITIES ACCORDING TO MONTHLY INCOME AND RENT PAID BY THE HOUSEHOLDS IN URBAN DELHI (1977-78)

Name of the locality	*Average monthly income of the household (both owners and renters)*	*Average of monthly rent (paid by the renter households)*	*As percentage of (2)*
(1)	(2)	(3)	(4)
1. Outram Lines	597.50	70.00	11.7
2. Ganj Mirkhan	604.29	34.39	5.7
3. Arya Pura	627.50	16.67	2.7
4. East Rohtas Nagar	676.15	68.52	10.1
5. Uttam Nagar (J.J. Colony)	690.63	33.33	4.8
6. Sadar Cantt.	792.00	34.00	4.4
7. Baird Road	812.14	84.00	10.3
8. Moti Nagar	863.75	148.57	17.2
9. Janak Puri	1,174.67	219.36	18.7
10. Kalkaji	1,371.77	205.00	15.0
11. Old Rajinder Nagar	1,448.89	283.33	19.5
12. Basti Harphool Singh	1,468.89	53.18	3.6
13. Vasant Vihar	2,383.33	832.00	35.3
14. Civil Lines	4,395.00	326.67	7.4

NOTE : A probe into the other details indicates that the tendencies in these localities are relatively of much longer durations than that in the other. Hence the rent control provisions could be assumed to be the chief factor responsible for low level of rents in these localities.

SOURCE : G.K. Misra and K.S.R.N. Sarma, *Distribution and Differential Location of Public Utilities in Urban Delhi*, New Delhi, *op. cit.*, pp. 277-78.

canvas of social costs and benefits in urban development in respect of municipal revenue mobilisation. Towards this new dispensation, there are broadly two approaches as far as reforms in tax rate structure are concerned. The first is to have a single base and a number of property taxes after various municipal service, as at present, but increasingly to make these service tax rates an integral part of the respective 'tax-price' charging systems, geared to the service objectives. Under this arrangement

TABLE C DISTRIBUTION OF ASSESSORS ACCORDING TO THE TAX PAYABLE

(Property tax is levied at the uniform rate of 6.25 per cent of Annual Value and the tax exemption limit is Rs. 12 p.a. (1972-73)

Tax group category	*Number of assessors of tax (per thousand percentage in the total)*	*Percentage contribution and the net current demand*
Group I		
12-50	3,803 (49.53)	
5-150	3,218 (41.90)	38.89
	7,021 (91.43)	
Group II		
151-250	391 (5.99)	
251-500	167 (2.18)	
501-1000	73 (0.95)	25.59
	631 (8.22)	
Group III		
1001 and above	27 (0.35)	35.66
	7,679 (100.00)	100.00

SOURCE : D.D. Malhotra, *Collection of Property Tax in Administrative Environment—A Bunch of Case Studies*, New Delhi, IIPA, 1979, pp. 232-33.

the emphasis would be more on the 'price' than on the tax component because of its amenability for discriminatory charging. The tax rates could not be so varied, for, they have to be uniform for all properties with similar (tax) base. The operationalisation of this suggestion is, however, beset with many a practical difficulty. An alternative course of reform could be to have a number of property tax systems for different categorisations of properties according to use, location, etc., and under each system to have different base-rate structures evolved on varying configurations of criteria to meet the overall objectives of urban development. The orientation of the municipal property taxation in this direction might appear to be a radical departure from the existing framework, but the thinking of reform on these lines perhaps cannot be postponed for long.

Appendix

PROVISIONS WITH REGARD TO PROPERTY TAX

Name of the Statute	*Composition*	*Compulsory or Discretionary*	*Statutory specification of limits on rates of the tax (as percentage of the Annual value)*			
			Individual tax		*All taxes put together*	
			Min.	*Max.*	*Min.*	*Max.*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Municipalities						
Andhra Pradesh Municipalities Act, 1965	(*a*) Tax for general purpose	Compulsory	—	—	—	—
	(*b*) Water and Drainage tax	,,	—	—	—	—
	(*c*) Lighting tax	,,	—	—	—	—
	(*d*) Scavenging tax	,,	—	—	—	—
The Assam Municipalities Act, 1956	(*a*) Tax on holding	Discretionary	—	—	—	—
	(*b*) Water tax	Compulsory	—	—	—	—
	(*c*) Lighting tax	,,	—	—	—	—
	(*d*) Latrine tax	,,	—	—	—	—
	(*e*) Drainage tax	,,	—	—	—	—
The Bihar and Orissa Municipalities Act, 1922	(*a*) Tax on holdings	Discretionary	—	12½	—	—
	(*b*) Water tax	,,	—	12½	—	—
	(*c*) Lighting tax	,,	—	3%	—	—

I

RATES UNDER VARIOUS MUNICIPAL STATUTES

Whether a consolidate could be levied	*Whether there is provision for progressive rates*	*Limit of the annual rental (or capital) value below which the properties are exempted from tax*	*Remarks*
(8)	(9)	(10)	(11)
	Yes	Rs. 400 if the Assessment is on the capital value basis or Rs. 60 p.a. if it is on A.R.V. basis	
		Rs. 6	(1) As provided under new section 68(a) incorporated in 1966. (2) Amount of water tax can vary according to the distance of the property from the public stand post and also whether or not a private connection is provided. (3) A rebate of 25% from Latrine tax in case of properties with flush type of latrine is allowed.
Yes		Rs. 6	(1) Latrine tax is not levied in the areas where sewerage system is in operation and drainage tax is collected.

Continude

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(*d*) Latrine tax or	Discretion-	—	7	—	—
	(*e*) drainage tax	ary	—	7½	—	—
The Gujarat Municipalities Act, 1963	(*a*) tax on building or lands	Discretion-ary	—	—	—	—
	(*b*) special sanitary cess	,,	—	—	—	—
	(*c*) general sanitary cess	,,	—	—	—	—
	(*d*) General water rate or special water rate or both	,,	—	—	—	—
	(*e*) lighting tax	,,	—	—	—	—
The Haryana Municipal Act, 1973	Tax on buildings and land	Compulsory	7½	15	—	—
The Himachal Pradesh Municipal Act, 1968	Tax on buildings and land	Discretion-ary	—	12½%	—	—
Karnataka Municipalities Act, 1964	(*a*) Tax on buildings and land	Compulsory	—	10% (cities) 8% (towns)	12½% (towns) 17½% (city)	
	(*b*) (*i*) special sanitary cess	,,	—	3%	—	—
	(*ii*) general sanitary cess	,,	—	4%	—	—
	(*c*) water rate	,,	—	7%	—	—
	(*d*) lighting tax	,,	—	3%	—	—

(8)	(9)	(10)	(11)
			(2) For Properties with A.R.V. Rs. 25 or below, maximum Latrine charge Rs. 3 p.a.
Consolidation of (*a*), (*b*) (*ii*), (*d*) and (*e*) except special water rate	—	—	—
—	—	The council by resolution can grant exemption to any poor person.	The charges for the scavenging, lighting, drainage, are recoverable purely as fees.
—	—	—	In the case of open lands the maximum ceiling on rate is ten paise per sq. yard and in the case of properties on bazar or streets the maximum rate of tax is Rs. 4 per running foot of frontage.
Yes	—	Annual value Rs. 6	(1) Urban areas as classified under the schedule IV of the statutes as cities or towns. (2) Open lands are taxable at the rate not exceeding Rs. 2 per hundred sq. meters. (3) Water rate can be imposed either in the form of tax on property or in other form.

Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Kerala Municipalities Act, 1960	(*a*) tax for general purposes	Discretionary	5	—	10	25
	(*b*) service taxes					
	(*i*) water tax	,,	—	—	—	—
	(*ii*) lighting tax	,,	2	—	—	—
	(*iii*) sanitary tax	,,	3	—	—	—
The Madhya Pradesh Municipalities Act, 1961	(*a*) tax on houses, buildings and land	Optional	—	—	—	—
	(*b*) a latrine or conservancy tax (private latrines)	,,	—	—	—	—
	(*c*) tax towards public latrines	,,	—	—	—	—
	(*d*) scavenging tax	,,	—	—	—	—
	(*e*) water tax	,,	—	—	—	—
	(*f*) lighting tax	,,	—	—	—	—
	(*g*) drainage tax	,,	—	—	—	—
Maharashtra Municipal Act, 1965	Consolidated tax on property which to include	Compulsory	—	—	—	—
	(*a*) general tax	,,	—	—	—	—
	(*b*) general water tax	,,	—	—	—	—
	(*c*) lighting tax	,,	—	—	—	—
	(*d*) general sanitary tax	,,	—	—	—	—
	(*e*) special sanitary tax	Discretionary	—	—	—	—
	(*f*) drainage tax	,,	—	—	—	—
	(g) special water tax	,,	—	—	—	—

(8)	(9)	(10)	(11)
—	—	Annual value Rs. 60	Under section 101 of the Act, the municipal council may exempt any building or land from the whole or any portion of the sanitary tax if it is satisfied that the owner or occupier has made efficient and satisfactory arrangement for the daily removal therefrom of rubbish, filth and carcasses of animals.
Provision for consolidation of (*a*), (*b*), (*e*) and (*g*)	—	—	—
—	—	—	Maxima and minima to be fixed in accordance to the rules prescribed from time to time, by the government.

Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
The Orissa Municipal Act, 1950	(*a*) tax on holdings	Discretionary	—	10	—	—
	(*b*) latrine tax	,,	—	10	—	—
	(*c*) water tax	,,	—	10	—	—
	(*d*) lighting tax	,,	—	5	—	—
	(*e*) drainage tax	,,	—	10	—	—
The Punjab Municipal Act, 1911	(*a*) general house tax	,,	—	12½	—	—
	(*b*) scavenging tax	,,	—	—	—	—
	(*c*) water tax	,,	—	—	—	—
The Rajasthan Municipalities Act, 1959	(*a*) tax on buildings and land	Compulsory	—	—	—	—
	(*b*) scavenging tax	Optional	—	—	—	—
	(*c*) lighting tax	,,	—	—	—	—
	(*d*) water tax	,,	—	—	—	—
	(*e*) general sanitary tax	,,	—	—	—	—
Madras District Municipalities Act, 1920	(*a*) tax for general purposes	Optional	—	—	—	—
	(*b*) water and drainage tax	,,	—	—	—	—
	(*c*) lighting tax	,,	—	—	—	—
	(*d*) scavenging tax	,,	—	—	—	—

(8)	(9)	(10)	(11)
—	—	Annual value Rs. 18 (from all holdings of the owners) (Holding tax only)	(1) Maximum of ceiling of latrine tax on holdings with Annual value Rs. 25 or below is Rs. 2 p.a. (2) Premises with flush type latrine are entitled for 25% reduction in latrine tax. (3) Water tax rate may vary also according to the distance of the property from public stand post or may be higher if private communication pipe is provided to the premises.
—	—	—	—
—	—	Rs. 120	(1) Scavenging tax is leviable only in cases where municipalities undertake clearing private latrines.
—	—	Annual value Rs. 18	(1) Government have powers to direct the levy and fix the maxima of the rates. (2) Exemption from the scavenging tax could be granted to buildings with satisfactory facilities for daily removal of rubbish, filth and carcasses of animals. (3) The rate of property tax on

Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
The U.P. Municipalities Act, 1916	(*a*) tax on buildings and land	Optional	—	—	—	—
	(*b*) water tax	,,	—	—	—	—
	(*i*) drainage tax	,,	—	—	—	—
	(*ii*) conservancy tax	,,	—	—	—	—
	(*c*) scavenging tax	,,	—	—	—	—
The Bengal Municipal Act, 1932	(*a*) holding rate	Optional	—	15& 10	—	—
	(*b*) water rate	,,	—	$7\frac{1}{2}$	—	—
	(*c*) lighting rate	,,	—	$3\frac{1}{2}$	—	—
	(*d*) conservancy	,,	—	10	—	—
Corporations						
The Hyderabad Municipal Corporation Act, 1955	(*a*) general tax	Compulsory	—	—	15	30
	(*b*) water tax	,,	—	—	—	—
	(*c*) drainage tax	,,	—	—	—	—
	(*d*) lighting tax	,,	—	—	—	—
	(*e*) conservancy tax	,,	—	—	—	—
The Gauhati Municipal Corporation Act, 1969	(*a*) general tax	,,	15	25	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) scavenging tax	,,	—	—	—	—
	(*d*) lighting tax	,,	—	—	—	—

(8)	(9)	(10)	(11)
			land can be lower than the rates of property tax on buildings with the same Annual Value.
Consolidation of rates of (*a*), (*b*) and (*d*)	—	—	—
—	—	Annual value Rs. 6 (all holdings)	(1) Municipalities included in schedule V, *viz.*, Howrah, Kurseong and Darjeeling. (2) Water rate can vary according to the distance of the property from the stand pipes, or whether private connection is provided to the premises. (3) Rebate 25% for properties with sanitary type of latrines.
—	Yes	—	(1) A charge by measurement or lump sum payment may be substituted for the water tax. (2) A special conservancy tax, rates based on costs can be levied in place of general conservancy tax, in the case of hotels, clubs, stalls and premises used for charitable or religious purposes.
—	—	Rs. 20	(1) For application of rates the Annual Values of owner-occupied property are to be discounted by 25 per cent. (2) Provision exists for taxing at

Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
The Patna Municipal Corporation Act, 1951	(*a*) tax on holding	Discretionary	—	12.5	—	—
	(*b*) water tax	,,	—	12.5	—	—
	(*c*) lighting tax	,,	—	3.0	—	—
	(*d*) latrine tax	,,	—	10.0	—	—
	(*e*) drainage tax	,,	—	10.0	—	—
The Karnataka Municipal Corporations Act, 1976	(*a*) tax on building and land	Compulsory	20	25	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) general sanitary tax, etc.	,,	—	—	—	—
The Kerala Municipal Corporations Act, 1961	(*a*) Tax for general purposes	Discretionary	—	—	15	25
	(*b*) Scavenging tax	,,	—	—	—	—

(8)	(9)	(10)	(11)
			an additional ½% rate the properties used for commercial or non-residential purposes. (3) A rebate upto 33⅓ per cent could be allowed in respect of properties with flush type latrine.
—	—	Rs. 18	(1) The rates are subject to the final approval of the state government. (2) For leying water tax at a rate higher than 10%, prior permission from the state government is required. (3) The rates of water tax can vary according to the distance to the property from the public stand post or according as whether private connection is provided on the premises. (4) A rebate may be provided to the properties with sanitary type of latrine. (5) Instead of annual value the other basis such as the number of users could be adopted for levying the latrine tax.
—	—	—	Water rates may be imposed in the form of a tax on property or in any other form.
—	Yes	Rs. 60. p.a.	—

Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(*c*) water and drainge tax	Discretionary	—	—	—	—
	(*d*) lighting tax	,,	—	—	—	—
The Madhya Pradesh Municipal Corporations Act, 1956	(*a*) tax on building and land	Compulsory	4.5	12.5	—	—
	(*b*) latrine and conservancy tax	,,	—	—	—	—
	(*c*) a general sanitary tax	,,	—	—	—	—
	(*d*) water tax	,,	—	—	—	—
	(*e*) lighting tax	,,	—	—	—	—
	(*f*) drainage tax	,,	—	—	—	—
	(*g*) Betterment tax	,,	—	—	—	—
The City of Bombay Corporation Act, 1888	(*a*) general tax	Compulsory	8%	21%	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) halalkhor (scavenging tax)	,,	—	5%	—	—
	(*d*) fire tax	,,	1/8	3/4	—	—
The Bombay Provincial Municipal Corporations Act, 1949	(*a*) general tax	Compulsory	12%	—	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) conservancy tax	,,	—	—	—	—
The Punjab Municipal Corporations Act, 1976	(*a*) general tax	Compulsory	15	—	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) scavenging tax	,,	—	—	—	—
	(*d*) fire tax	,,	—	—	—	—
	(*e*) lighting tax	,,	—	—	—	—

(8)	(9)	(10)	(11)
--	Yes	Rs. 60	—
—	—	—	—
—	Yes, only in respect of General Tax	—	(1) Provision for charging ½% higher rate of general tax in the case of premises used for certain trades. (2) Conservancy tax may be fixed at special rates based on estimated costs in respect of hotels, clubs, stables or other large premises, used solely for public purposes, charitable and religious institutions. (3) Minimum Rs. 0.50 per holding of conservancy tax.
—	Yes, only in respect of general tax.	—	—

Continued

(1)	(2)	(3)	(4)	(5)	(6)	(7)
The Madras City Municipal Corporation Act, 1919	(*a*) tax for general purposes	Discretionary	15½	25	—	—
	(*b*) water and drainage tax	,,	—	—	—	—
	(*c*) lighting tax	,,	—	—	—	—
The Uttar Pradesh Nagar Mahapalika Adhiniyam, 1959	(*a*) general tax	Compulsory	15	25	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) drainage tax	,,	—	—	—	—
	(*d*) conservancy tax	,,	—	—	—	—
The Delhi Municipal Corporation Act, 1957	(*a*) general tax	Compulsory	10	25	—	—
	(*b*) water tax	,,	—	—	—	—
	(*c*) scavenging tax	,,	—	—	—	—
	(*d*) fire tax	,,	—	—	—	—
The Calcutta Municipal Act, 1951	Consolidated rates	Compulsory	Vary from 15% to 33%	—	—	—

(8)	(9)	(10)	(11)
—	Yes	Rs. 36	In the case of land which is not appurtenant to any building and occupied by huts, the commissioning may impose general charges (2,400 sq. ft.) with maximum contingencies as of rates per annum, water and drainage tax Rs. 3; lighting Re. 1; tax for general purposes Rs. 4.
Yes	Yes, only in respect of general tax	—	—
—	—	—	(1) A person who is charged for water tax by measurement shall not be liable for payment of water tax. (2) Special rates of scavenging tax in certain cases like hotels, clubs and other large premises fixed with reference to the estimated costs.
Yes	Yes	—	A surcharge of 50% is leviable on properties which are used for commercial and non-residential purposes.

Appendix

PROPERTIES TAX RATES—MUNICIPALITIES

State					*General*
Name of the Municipalities and year	*Rate*	*Annual value slab (Rs.)*	*Water tax*	*Sewerage & Drainage tax*	*Conservancy tax*
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh (1970-71)	12	Uniform	7.5	—	—
	10	,,	4 0	5.0	—
(*i*) Kakinada	12	,,	4.5	1.0	—
(*ii*) Kurnool	16.87	,,	2.5		
(*iii*) Machilipatnam					
(*iv*) Tenali					
Bihar (1970-71)					
Ranchi	12.5	Uniform	12.5	—	—
Gujarat (1970-71)	For-residential				
(*i*) Bhavnagar	1.5	101-250	—	—	—
	3.0	251-500			
	4.0	501-1000			
	6.0	1001-above			
	Non-Residential Properties				
	6.0	uniform			
(*ii*) Jamnagar	10	uniform	—	—	—
Haryana (1970-71) Rohtak	8	uniform	—	—	—

II (a)

(1970-71 AND 1980-81)

property tax

Scavening tax & latrine tax	*Street lighting tax*	*Fire tax*	*Others*	*Cesses*	*Special features*
(7)	(8)	(9)	(10)	(11)	(12)
—	4.0	—	—	—	—
—	4.0	—	3.7	—	—
3.0	3.0	5.0	(education	—	—
2.0	1.37	—	tax)	—	—
			(education tax)	—	—
7.5	—	—	—	—	Without temporary connection the water tax is only 7.5% of ARV.
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Continued

(1)	(2)	(3)	(4)	(5)	(6)
Karnataka (1980-81)					
(*i*) Davenger	17.5	Uniform (consolidated)	—	—	—
(*ii*) Nanjanjund	6.5	Uniform	40	—	—
Kerala (1970-71)					
Allepy	5.0	Uniform	3.0	—	3.0
Quilon	5.0	Uniform	4.0	—	3.0
Madhya Pradesh (1980-81)	6.0 8.33	1,800-6000 6,001-12,000	—	—	—
(1) Burhanpur	10.0 15.0 20.0	12,001-18,000 18,001-24,000 24,001 and above			
(2) Ratlam		Same as above	—	—	—
Maharashtra (1980-81)					
Amaravati	19.0	Uniform	—	—	3.0
Sangli	19.0	,,	—	—	3.0
Orissa (1980-81)					
Raajnandgoan	4.0	Uniform	2.0	—	1.25
Punjab (1980-81)	12.5	Uniform	—	—	—
Albor					

(7)	(8)	(9)	(10)	(11)	(12)
—	—	—	—	—	—
—	3.0	—	—	—	—
—	2.0	—	—	—	—
—	2.0	—	—	—	—
—	—	—	—	—	Properties with annual values of Rs. 1,800 and below are exempted from the tax.
—	—	—	—	—	—do—
—	—	—	—	—	Scavenging charges: Rs. 12 per seal.
—	—	—	—	—	—do—
—	1.0	—	—	—	—
—	—	—	—	—	—

Continued

(1)	(2)	(3)	(4)	(5)	(6)
Tamil Nadu (1970-71) (For All class I) Municipalities					
On buildings (based on ARV)	11.0	Uniform	9.0	—	3.5
On vacant lands (based on capital value)	0.5	Uniform	0.5	—	0.125
On Agricultural (based on land revenue)	45.0	Uniform	—	—	—
Uttar Pradesh (1970-71)					
(*i*) Aligarh	6.25 9.38 12.50	Upto Rs. 600 601-1000 1001 and above		—	—
(*ii*) Ghaziabad	6.0	Uniform		4.7	—
(*iii*) Meerut	6.25	,,		—	—
(*iv*) Moradabad	5.0	,,		—	—
(*v*) Muzafarnagar	5.0	,,		7.5	—
West Bengal (1970-71)					
(*i*) Asansol	7.5	Uniform		6.4	10.0
(*ii*) Kamarhati	9.0	,,		4.0	8.0
(*iii*) Panihati	10.0	,,		nil	7.0

(7)	(8)	(9)	(10)	(11)	(12)
—	2.5	—	5.0 (education) tax)	—	—
—	—	—	0.25 (education tax)	—	—
—	—	—	5.0 (education tax)	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	1.5	—	—	—	—
—	2.0	—	—	—	—
—	3.0	—	—	—	—

Continued

(1)	(2)	(3)	(4)	(5)	(6)
Delhi (1980-81)					
New Delhi Municipal Committee	12.5	Uniform		—	—

SOURCE: (*i*) The 1970-71 data is based on the information furnished by the muni-
"Finances of Large Municipalities" New Delhi, Indian Institute of
(*ii*) The 1980-81 data is furnished by the course participants of the
1980. .

Appendix

PROPERTY TAX RATES—

State	*General*				
Name of the Municipalities and year	*rate*	*Annual value slab (Rs.)*	*Water tax*	*Sewerage & drainage tax*	*Conser-vancy tax*
(1)	(2)	(3)	(4)	(5)	(6)
Gauhati Municipal Corporation.	10	Uniform	7.5		3 5
Baroda Municipal Corporation	nil	Upto 300	3		
	12	301-1000	3		
	13	1001-2000	3		
	40	Maximum	3		

(7)	(8)	(9)	(10)	(11)	(12)
—	—	—	—	—	—

cipalities concerned in connection with the study undertaken by the author on Public Administration, 1974 (mimeo).
training programmes on 'Property Tax—Assessment and Valuation, IIPA, September,

II (b)

CORPORATIONS (1980-81)

All rates as percentage of Annual Value

property tax					
Scavenging tax & latrine tax	*Street lighting tax*	*Fire tax*	*Others*	*Cesses*	*Special features*
(7)	(8)	(9)	(10)	(11)	(12)
1.0	—	—	—	—	Water tax in respect of properties on the first or above floors is only 5 per cent of the ARV. Latrine tax in respect of properties with Sanitary latrines is only 2.33 per cent of ARV. (1) In the case of factories the drainage tax varies from 8 to 10 per cent.

Continued

(1)	(2)	(3)	(4)	(5)	(6)
Bhopal Municipal Corporation	nil 6 8.33 10.0 15.0 20.0	upto 1800 1801-6000 6001-12000 12001-18000 18001-24000 24001+	Fixed Rs. 10 p.a. ,, ,, ,, ,,		
Indore Municipal Corporation	vary 6.20	Details N.A.	Flat rate is charged	2.25	3.5
Municipal Corporation of Greater Bombay	24.0	Uniform	11.0		5.0
Corporation of Calcutta	15.0 18.0 22.0 27.0 33.0	1-1000 1001-3000 3001-12000 12001-15000 15001 and above			

SOURCE : Information gathered from the participants of the training programme on

(7)	(8)	(9)	(10)	(11)	(12)
	Fixed Rs. 10 ,, ,, ,, ,, 1.25				
		1.5	3.0 (water Benefit tax)	For Education graded scale maximum 5%	Property tax is levied in the form of a consolidated rate. But a 50% cess leviable on lands and buildings which are used for commercial or non-residential purposes.

"Property tax—Assessment and Valuation, IIPA", September, 1980.

□

Municipal Property Tax Reform : A Case Study of West Bengal

R.M. KAPOOR

IN LATE 1978, a study was undertaken to review the tax structure in the West Bengal municipalities with a view to identify some options for needed reforms which could be introduced immediately.

This study was to be based on an examination of the following :

1. the 'current statutory provisions' in the Bengal Municipal Act, 1932—insofar as these pertained to 'imposition' of taxes, only;
2. the 'current tax structures' in some of the West Bengal municipalities; and
3. the 'valuationwise distribution of the assessed holdings' for various municipalities.

Inasmuch as 'immediate reforms' provided the basic motivation of the study, issues related to the current practice of using the 'rent-based rateable valuation system' for assessment and levy of property taxes and all other matters related to assessment, *viz.*, personnel, procedures and practices were kept beyond the purview of the study.

In a similar study concerning the 'Finances of Calcutta Corporation', the thesis had been advanced that :

> ...in the ultimate analysis, a major breakthrough in the current property tax system cannot be achieved, until and unless, the very concept of determining property taxes on basis of rateable valuations, itself, is scrapped altogether.

The inadequacies of the 'rent based rateable valuation system' have been highlighted in a paper entitled 'Finances of Calcutta Corporation —Problems and Prospects',[1] and, if anything, the current study's findings reiterate the views expressed in this paper.

[1]R.M. Kapoor, "Finances of Calcutta Corporation—Problems and Prospects", *Nagarlok*, Vol. IX, No. 1, January-March, 1977, pp. 53-74.

SOME POLICY ISSUES CONCERNING RATES

Leaving aside the issues related to the basic system of property taxation and being guided by the terms of reference of the study in hand, the following policy issues were raised with regard to the levy of property taxes in the West Bengal municipalities :

1. from the point of view of equity between areas, should there not be a hierarchical relationship in the tax structures as applicable to the Calcutta Corporation *vis-a-vis* the West Bengal municipalities ?
2. within the sphere of the municipalities themselves, again, from the point of view of equity between areas, should there not be a next level of hierarchical relationship with some municipalities having a higher order tax structure than the others ; and, in this context, should there not be differential rate structures for municipalities in the Calcutta metropolitan district (CMD) *versus* those in the non-CMD areas ?
3. while determining the various levels of taxation, starting from Calcutta Corporation to the small town municipalities, should the levels of economic development which indirectly reveal the capacity to pay not feature in any exercises for classification of municipalities ?
4. within a given municipality, from the point of view of equity between individuals, is it equitable to charge a uniform rate for all holdings irrespective of their valuations, as is the case now ? and
5. what is the relevance of splitting up of the rates into various components such as holding tax or water, lighting or conservancy taxes, as in vogue now, particularly keeping in view the administrative costs of billing and collection ?

These policy issues were examined against the background of the realities of the current situation and the following paragraphs highlight the findings.

THE PRESENT STATUTORY PROVISIONS

Sections 123 to 126 of the Bengal Municipal Act, 1932 (Bengal Act V of 1932) deal with the powers for imposition of taxes in the West Bengal municipalities.

Thus, according, to the provisions of section 123 (1), the commissioners may, from time to time, impose, within the limits of the munici-

palitiy, the following variants of property taxes :

(*a*) a rate on holdings situated within the municipality assessed on their annual value ;
(*b*) a water rate on the annual value of holdings ;
(*c*) a lighting rate on the annual value of holdings ; and
(*d*) a conservancy, latrine and drainage rate (hereafter known as the conservancy rate) on the annual value of holdings.

Section 124 of the Act provides that in case of a municipality, the holding rate shall exceed 10 per cent except for Howrah, Kurseong and Darjeeling in whose cases the permissible limit is 15 per cent.

According to the stipulations in section 125, the water rate and the lighting rate shall not exceed 7.5 per cent and 3.0 per cent respectively. This section also specifies the conditions under which these taxes may not be levied.

Section 126, besides stipulating the restrictions under which the conservancy rate may not be levied, stipulates that this rate shall not exceed 10 per cent of the annual value of any holding.

Of the 104 local bodies in West Bengal, data on the rate structures of 57 municipalities could be compiled—19 within the Calcutta Metropolitan District (out of 32) and 38 in the non-CMD areas.

Tables 1 and 2 show the holding, conservancy, lighting and water rates as levied by the 19 CMD and 38 non-CMD municipalities, respectively.

THE ANOMALIES OF THE CURRENT RATE STRUCTURES

These are analyzed in terms of the following :

1. total tax rates in the municipalities *versus* those in Calcutta ;
2. inter-municipality comparisons between CMD and non-CMD municipalities as also similar comparisons on population basis ; and
3. intra-district evaluations of the tax structures of the concerned municipalities.

Analysis of Total Tax Rates

The study on the 'Finances of Calcutta Corporation',[2] referred to earlier, contained the Table given on next page showing the distribution of assessed properties in the following valuation ranges.

[2]R.M. Kapoor, op. *cit.*, p. 55.

Distribution of Assessed Properties According to Valuation Range

Annual Rateable Valuation		*Slab per cent*	*No. of Properties*	*Percentage of Properties*
Rs.	1- 1,000	15	70,120	51.67
Rs.	1,001- 3,000	18	42,825	31.55
Rs.	3,001-12,000	22	15,940	11.75
Rs.	12,001-15,000	27	4,435	3.27
Rs.	15,001 and above	33	2,393	1.76
			1,35,713	100.00

Reference to Tables 1 and 2 reveals the following with regard to the West Bengal municipalities covered under the present study:

Total Tax Rate Percent	*Number of Municipalities*	
	CMD	*Non-CMD*
15.0 and below	1	10
15.5 to 18	2	7
18.5 to 22	5	8
22.5 to 27	10	11
27.5 and above	1	2
	19	38

From the data presented above and in Tables 1 and 2, it can be seen that :

—Whereas, only 1.76 per cent of all the assessees in Calcutta pay property taxes at a rate higher than 27 per cent, 100 per cent of the assessees in Budge-Budge, Asansol and Ranaghat pay taxes at the rate of 27 per cent.

—Whereas, only 3.27 per cent of all the assessees in Calcutta pay taxes above 22 per cent and up to 27 per cent, 100 per cent of the assessees in the following 10 CMD and 11 non-CMD municipalities pay taxes at such scales.

CMD Municipalities : Bhatpara, Garden Reach, North Barrackpore, Champdany, North Dum Dum, Bansberia, Bhadreswar, Khardah, Dum Dum, and Hooghly-Chinsurah.

Non-CMD Municipalities : Nabadwip, Bankura, Berhampore, Midnapore, Kharagpur, Purulia, Raniganj, Suri, Katawa, Tamluk and Kurseong.

—Whereas, only 11.75 per cent of all the assessees in Calcutta pay taxes above 18 per cent and up to 22 per cent, 100 per cent of the

TABLE 1 STATEMENT SHOWING HOLDING, CONSERVANCY, LIGHTING AND WATER RATES AS LEVIED IN SOME CMD MUNICIPALITIES*

Sl. No.	*Name of the Municipality*	*Tax Rate(%)*				*Total Rate (%)*
		Holding	*Conservancy*	*Lighting*	*Water*	
	Maximum permissible under the B.M. Act	10.00†	10.00	3.00	7.50	30.50
1.	Bansberia	10.00	6.00	2.00	6.00	24.00
2.	Barasat	8.00	7.00	3.00	—	18.00
3.	Bhatpara	10.00	9.00	2.00	4.00	25.00
4.	Bhadreswar	10.00	7.00	3.00	4 00	24 00
5.	Budge Budge	10.00	10.00	2.50	5.00	27.50
6.	Chandernagar	8.00	7.00	2.50	2.00	19.50
7.	Champdany	8.50	9.00	3.00	4 00	24.50
8.	Dum Dum	10.00	5.00	1.50	7.00	23.50
9.	Garden Reach	10.00	4.50	2 25	7.00	23.75
10.	Hooghly-Chinsurah	7.50	7.00	3.00	7.50	25.00
11.	Kanchrapara	7.50	5.25	1.75	4.00	18.50
12.	Khardah	7.50	7.00	3.00	5.00	22.50‡
13.	Naihati	10.00	7.00	3.00	2.00	22.00
14.	New Barrackpore	7.50	—	1.50	—	9.00‡
15.	North Barrackpore	7.00	10.00	3.00	4.00	24.00
16.	North Dum Dum	10.00	5.00	2.50	7.50	25.00
17.	Panihati	10.00	7.00	3.00	2.00	22.00
18.	Rajpur	7.00	6.00	3.00	—	16.00
19.	Rishra	7.50	7.50	2.00	4.00	21.00
					5.00	22..00

†1977-78 data.

†In case of Howrah, the holding may be fixed at 15 per cent, vide Section 124 and Schedule V of the Act.

‡Education Cess @ 2 per cent is also charged, in addition.

assessees in the following 5 CMD and 8 non-CMD municipalities pay taxes at such rates.

CMD Municipalities : Panihati, Naihati, Kanchrapara, Chandernagar, Rishra.

Non-CMD Municipalities : Siliguri, Bongan, Ghatal, Jiaganj-Azimganj, Arambagh, Rampurhat, Kalimpong and Dainhat.

The above analysis conclusively establishes the point that 'gross inequities' exist in the tax burdens that the rate-payers in the municipal towns have to shoulder *vis-a-vis* those in Calcutta.

Such inequities become much more noteworthy considering that the 'level of civic amenities' in Calcutta is decidedly of a higher order than in most of the municipal towns.

TABLE 2 STATEMENT SHOWING HOLDING, CONSERVANCY, LIGHTING AND WATER RATES AS LEVIED IN SOME NON-CMD MUNCIPALITIES*

Sl. No.	*Name of the Municipality*	*Tax Rate (%)*			*Water*	*Total Rate (%)*
		Holding	*Conservancy*	*Lighting*		
	Maximum permissible under the B.M. Act	10.00†	10.00	3.00	7.50	30.50
1.	Arambagh	9.00	7.00	3 00	—	19.00
2.	Asansol	7.50	10.00	1.50	6.00	25.00‡
					7.00	26.00
3.	Baduria	7.50	5.00	3.00	—	15.50
4.	Balurghat	7.50	7.50	2.00	—	17.00
5.	Basirhat	6.00	7.00	2.50	—	15.50
6.	Bankura	5.50	8.000	2.50	4.50	20.50‡
					6.00	22.00
7.	Behrampore	10.00	8.00	2.00	5.00	25.00
8.	Birnagar	8.00	—	3.00	—	11.00
9.	Bishnupur	4.00	6.00	2.00	—	12.00
10.	Bongaon	10.00	7.00	3.00	—	20.00
11.	Bolpur	7.50	6.00	3.00	—	16.50
12.	Chandrakona	10.00	—	—	—	10.00
13.	Chakdaha	10.00	—	3.00	1.50	14.50
14.	Cooch Behar	6.00	6.00	2.00	2.00	16.00‡
15.	Dainhat	7.50	10.00	3.00	—	20.50
16.	Dhuliyan	10.00	—	2.00	3.00	15.00
17.	Ghatal	8.00	8.00	2.00	—	18.00‡
18.	Jangipur	6.50	7.00	2.00	—	15.50‡
19.	Jhalda	12.50	—	2.50	—	15.00
20.	Jiaganj-Azimganj	8.00	10.00	2.00	—	20.00
21.	Kalimpong	10.00	6.50	2.00	1.00	19.50
22.	Kandi	7.50	7.50	2.50	—	17.50
23.	Katwa	7.50	9.00	2.00	3.50	22·00‡
24.	Kharagpore	10.00	9.00	2.50	5.00	26.50
25.	Kharar	10.00	—	—	—	10.00
26.	Kurseong	13.00	7.00	2.00	1.00	23.00
27.	Malda	10.00	—	3.00	2.00	15.00
28.	Midnapore	7.50	9.00	3.00	6·50	26.00
29.	Nabadwip	10.00	10 00	3.00	1.50	24.50
30.	Purulia	10.00	10.00	2.50	—	22.50
31.	Ranaghat	10.00	10.00	3.00	5.00	28.00
32.	Rampurhat	8.00	8.00	2.00	—	18.00‡
33.	Raghunathpur	8.00	6 00	1.00	—	15.00
34.	Ranigunge	7.50	10.00	1.00	6.00	24.50
35.	Siliguri	8.00	8.00	3.00	—	19.00
36.	Sonamukhi	10.00	—	2.50	—	12.50
37.	Suri	5.00	10.00	3.00	5.00	23.00
38.	Tamluk	7.00	7.00	2.00	7.00	23.00

*1977-78 data.

†In case of Kurseong & Darjeeling, the holding rate may be fixed at 15 per cent, vide Section 124 and Schedule V of the Act.

‡Education Cess @ 2 per cent is also charged, in addition,

Analysis of Total Tax Rates—CMD vs. Non-CMD Municipalities

Further persual of Tables 1 and 2 leads to the question—whether it is equitable that the rate-payers in New Barrackpore, Barasat and Kanchrapara, among the CMD municipalities carry a tax burden of only 11 per cent, 18 per cent and 18.5 per cent respectively while those in non-CMD areas such as Bongaon, Ghatal, Jiaganj-Azimganj and Rampurhat pay taxes at the rate of 20 per cent, in Dainhat at the rate of 20.5 per cent in Tamluk at the rate of 23 per cent and at the rate of 24 per cent in Katwa ?

Furthermore, it may be asked whether it is equitable that among the CMD municipalities, the rates in the 'industrial' areas should vary as widely as these do—such as 21 per cent at Rishra ; 22 per cent at Panihati and Naihati ; 24 per cent at Bansberia, Bhadreswar and Garden Reach ; 25 per cent at Bhatpara and 27.5 per cent at Budge-Budge ?

Inter-District Analysis of Total Tax Rates

A reference to Table 3 shows that :

—Ranaghat in district Nadia has the highest rate among all the West Bengal municipalities (*i.e.*, 28 per cent) whereas Siliguri in Darjeeling district, despite its larger population and a much more developed economic base—has a total tax rate of 19 per cent only.

—New Barrackpore, Barasat and Kanchrapara in the more developed 24-Parganas district have total tax rates of only 11 per cent, 18 per cent and 18.5 per cent respectively—whereas Dainhat in Burdwan District, the rate is 20.5 per cent and in Rampurhat in Birbhum and Jiaganj-Azimganj in Murshidabad, it is 20 per cent.

—among the district headquarter towns, the rate is 25 per cent in Berhampore, 22.5 per cent in Purulia and only 17 per cent in Balurghat.

Intra-District Analysis in case of Some Municipalities

A further scrutiny of Table 3 leads to the questions whether it is equitable that :

—within the Birbhum district, Bolpur with a larger population has a lesser tax rate at 16.5 per cent than the 20 per cent rate at Rampurhat.

—in Bankura district, Sonamukhi's rate at 14.5 per cent is higher than the 12 per cent rate at the more populous town of Bishnupur, and

—similar inconsistencies exist in Hooghly, Nadia, Murshidabad and Darjeeling districts too.

Populationwise Analysis of Current Tax Rates

Following excerpts from Table 3 illustrate this point further that in many of the less populous small town municipalities, the ratepayers carry relatively larger tax burdens than their counterparts in the bigger

TABLE 3 DISTRICTWISE ANALYSIS OF PROPERTY TAX DATA FOR SOME OF THE WEST BENGAL MUNICIPALITIES

Sl. No.	*Municipality*	*Population (1971)*	*No. of Holdings*	*Total Tax (%)*
	I. Burdwan			
1.	Asansol	1,55,968	12,525	27.00/28.00
2.	Raniganj	40,104	4,126	24.50
3.	Katwa	28,832	4,802	24.00
4.	Dainhat	12,906	3,081	20.50
	II. Birbhum			
5.	Suri	30,110	5,358	23.00
6.	Bolpur	29,636	6,541	16.50
7.	Rampurhat	23,770	3,798	20.00
	III. Bankura			
8.	Bankura	79,129	10,321	22.50
9.	Bishnupur	38,135	7,168	12.00
10.	Sonamukhi	18,974	3,686	14.50
	IV. Midnapore			
11.	Midnapore	71,326	10,400	26.00
12.	Kharagpur	61,783	12,661	26.50
13.	Ghatal	27,570	5,612	20.00
14.	Tamluk	22,478	3,860	23.00
15.	Chandrakona	19,811	5,227	10.00
16.	Kharar	7,862	N.A.	10.00
	V. Hooghly			
17.	Hooghly-Chinsurah	1,05,241	18,641	25.00
18.	Chandernagar*	75,238	14,250	19.50
19.	Champdany*	68,596	4,991	24.50
20.	Rishra*	63,486	5,478	21.00/22.00
21.	Bansberia*	61,748	6,895	24.00
22.	Bhadreswar*	45,586	4,610	24.00
23.	Arambagh	25,592	3,000	19.00
	VI. 24-Parganas			
24.	Bhatpara*	2,04,750	13,050	25.00
25.	Garden Reach*	1,64,913	10,131	24.00
26.	Panihati*	1,48,046	N.A.	22.00
27.	Naihati*	82,080	7,062	22.00
28.	Kanchrapara*	78,768	5,722	18.50
29.	North Barrackpore*	76,335	9,743	24.00

(*Continued*)

Sl. No.	*Municipality*	*Population (1971)*	*No. of Holdings*	*Total Tax (%)*
30.	North Dum Dum*	63,873	N.A.	25.00
31.	Basirhat	63,816	N.A.	15.50
32.	Budge Budge*	51,039	4,681	27.50
33.	Bongaon	50,538	8,041	20.00
34.	Barasat*	42,642	10,536	18.00
35.	Rajpur*	34,333	8,047	16.00
36.	New Barrackpore*	32,512	6,604	11.00
37.	Khardah*	32,302	4,299	24.50
38.	Dum Dum*	31,363	2,197	23.50
39.	Baduria	27,647	4,000	15.50
	VII. Nadia			
40.	Nabadwip	94,204	13,779	24.50
41.	Ranaghat	47,815	6,517	28·00
42.	Chakdah	46,345	7,873	14.50
43.	Birnagar	10,560	3,973	11.00
	VIII. Murshidabad			
44.	Behrampore	72,605	12,462	25.00
45.	Jangipur	29,872	4,172	17.50
46.	Jiaganj-Azimganj	26,535	4,696	20.00
47.	Kandi	26,225	4,897	17.50
48.	Dhulian	22,068	3,140	15.00
	IX. Malda			
49.	Malda	6,691	1,677	15.00
	X. Darjeeling			
50.	Siliguri	97,484	9,857	19.00
51.	Kalimpong	23,430	1,405	19.50
52.	Kurseong	16,425	1,421	23.00
	XI. West Dinajpur			
53.	Balurghat	67,088	5,406	17.00
	XII. Cooch Behar			
54.	Cooch Behar	53,684	7,452	18.00
	XIII. Purulia			
55.	Purulia	57,708	8,456	22.50
56.	Raghunathpur	12,721	2,463	15.00
57.	Jhaldha	11,747	1,839	15.00

*Shows the CMD Municipalities.

towns :

Municipality	*Population*	*Total Taxes*(%)
Siliguri	97,484	19.00
Kanchrapara	78,768	18.50
Chandernagar	75,238	19.50
Balurghat	67,088	17.00
Basirhat	63,816	15.50
Cooch Behar	53,684	18.00
Dainhat	12,906	20.50
Rampurhat	23,770	20.00
Jiaganj-Azimganj	26,535	20.00
Ghatal	27,570	20.00
Katwa	28,832	24.00
Suri	30,110	23.80
Ranaghat	47,815	28.00

General Observations concerning the Current Rate Structures

The analysis presented thus far lead to the general conclusions that the current rate structures in West Bengal municipalities seem to have no correlation with :

—the current 'levels of civic services', as illustrated in the case of CMD *vs.* non-CMD municipalities
—the levels of economic activities (which, indirectly, reflect the capacity to pay), as illustrated in the inter-district comparisons, and
—the demographic characteristics of the various municipal towns, so that 'ratepayers in smaller towns are made to carry higher tax burdens' than their counterparts in bigger towns and cities.

Thus, the salient observation can be made that from the points of view of equity that very serious distortions exist in the current rate structures of the various West Bengal municipalities.

The Anti-Development Bias of Current Rates

The facts that property tax burdens currently are higher in municipal towns than in Calcutta and even among the municipal towns also, ratepayers in some of the more developed areas carry lesser tax burdens, have serious economic implications.

Thus, insofar as property taxes constitute a recurring financial burden, and in the cases of non-residential users, such recurring expenses are taken into account in decisions on location of economic activities and

industries, etc., it is obvious that :

—The present rate structures in West Bengal municipalities have a built-in bias for the more developed areas, and for further concentration of economic activities in such areas only.

—The national policy being for dispersal of economic and employment opportunities it is obvious that the municipal taxation policies, as at present, are in direct conflict with the economic development policies of the state.

The Inequities Due to Uniform Rates on All Holdings

Another major distortion in the matter of levy of taxes within all West Bengal municipalities is that all holdings, irrespective of their valuations, are currently placed under an identical tax burden.

Inasmuch as capacity to pay is an important criterion for evaluation of any kind of a taxation measure, the point must be made forcefully that the inequitable tax burden due to a uniform rate for all assessees is against all the well-established canons of taxation policies.

The Questionable Rationale for Splitting-up of Rates

As stated earlier, unlike the practice in Calcutta, the present statutory provisions for the West Bengal municipalities call for levy of property taxes under 4 different heads, namely :

1. Holding Rate,
2. Water Rate,
3. Lighting Rate, and
4. Conservancy Rate.

The normal rationale for splitting up of property taxes under various heads is to employ the *quid-pro-quo* principle for recovering the costs for the civic services provided.

However, in the case of the West Bengal municipalities, since all the rates are computed in terms of the annual values of the holdings and as no advantage due to the *quid-pro-quo* principle is possible, the administrative costs for billing and collections become manifold.

It may be argued that separation of rates is desirable as not all the municipalities provide all the services.

This objective can, however, be achieved at approximately one-fourth of the administrative costs, if only one bill is raised with the total tax rate, as the basis and rebates are given for such services as are not provided.

For the purposes of municipal budgeting and accounting, the advantages of separate heads can be ensured, nevertheless, by adopting the same approach as has been incorporated in the Calcutta Municipal Corporation Bill, 1980—that of allocation from the total receipts of

property taxes, statutorily specified percentages respectively for the Water-Supply-Sewerage and Drainage Fund, the Road Maintenance and Development Fund and other designated funds.

The Irrationalities of the Current Holding, Conservancy, Lighting and Water Rates

The bar chart page shows the break-up of property taxes in terms of holding rates, conservancy rates, lighting rates and water rates for the CMD and non-CMD municipalities respectively.

Perusal of the data in Tables 1 and 2 shows that the current levies for holding rate vary from 4 per cent up to the maximum permissible limit of 10 per cent which is applicable in case of 9 CMD and 13 non-CMD municipalities covered by this study.

Examination of this data in relation to the respective populations of the various municipalities reveals similar distortions in higher holding rates being levied in smaller towns and *vice versa*, such as, in Bankura where the holding rate is only 5.5 per cent (population being 79,129) *versus* the 10 per cent rate in Dhulian (population 22,068), Sonamukhi (18,974) and many such other.

The holding rate of 7.5 per cent in Asansol, Midnapore, Balurghat and Ranigunge *versus* the 10 per cent rate in Panihati, Naihati, Bansberia, Kharagpur, Purulia and many others also point to such inconsistencies.

Water Rate Analysis

Perusal of the data in Tables 1 and 2 also shows that in 3 of the 19 CMD municipalities and 21 of the 38 non-CMD municipalities covered by this study, no water rates are levied whereas in others, this rate varies from 1 per cent in Kalimpong and Kurseong to 7.5 per cent in North Dum Dum, 7 per cent in Dum Dum and Garden Reach, and is at intermediate levels in the others.

Although elaborate statistical evidence on the level of water-supply in various municipalities is not available, from the sketchy information that is available on the CMD municipalities in the *Municipal Gazetteer* published by the Indian Institute of Social Welfare and Business Management, Calcutta, it can be concluded that no statewide correlation exists between the water rates levied and the per capita levels of water supply in the various municipalities.

Analysis of Lighting Rates

Tables 1 and 2 also show that except for Chandrakona and Kharar where no lighting rates are levied, in the other municipalities, the lighting rates vary from 1 per cent to the maximum permissible limit of 3 per cent. However, it is difficult to identify any basis on which such varia-

CHART

Compilation by: SAHUJAIN COMMUNITY AFFAIRS ORGANIZATION, CALCUTTA

tions in the rates exist. For instance, why the lighting rate at Garden Reach should be 2.25 per cent, as against 3 per cent in the case of Barasat, Bhadreswar, Champdany and Khardah is difficult to analyse and explain.

Analysis of Conservancy Rates

From the data in Tables 1 and 2, it is observed that the conservancy rate varies from 4.5 per cent in the case of Garden Reach municipality to maximum permissible limit of 10 per cent in case of Budge-Budge, North Barrackpore and 8 other non-CMD municipalities, including Dainhat and Jiaganj-Azimganj, on the other hand, no conservancy rate is charged in New Barrackpore, Birnagar, Chandrakona, Chakdaha, Dhulian, Jhalda, Kharar, Malda and Sonamukhi.

Another analysis reveals that in the case of numerous municipalities, the conservancy rate is higher than the holding rate as is seen below :

Municipality	*Holding Rate* (%)	*Conservancy Rate* (%)
Champdany	8.50	9.00
North Barrackpore	7.00	10.00
Asansol	7.50	10.00
Basirhat	6.00	7.00
Bankura	5.50	8.00
Bishnupur	4.00	6.00
Dainhat	7.50	10.00
Jiaganj-Azimganj	8.00	10.00
Katwa	7.50	9.00
Midnapore	7.50	9.00
Ranigunje	7.50	10.00
Suri	5.00	10.00

It is difficult to identify any logical reasons for the conservancy rates to be higher than the holding rates, particularly when the established norm is that the holding rates, normally speaking, are applied for the general establishment costs which are comparatively higher than the other costs.

General Conclusion on Splitting up of Rates

From the above analysis, the general conclusion is inescapable that not only no direct purpose is being served by splitting up of the rates under the various heads, but there exist no logical criteria which show as to how, for a given municipality, the total demands are split-up under various heads. Also, through the inter-municipality analysis, it is clear that no rational basis exists in terms of which, under the same head,

different levels of taxation are resorted to by different municipalities.

THE CONCEPTUAL FRAMEWORK FOR FUTURE REFORMS

Against the background of the various observations made above, the following strategic considerations can be highlighted for future reforms on taxation matters in the case of the West Bengal municipalities :

—that, the taxation policies should not merely be directed for resource mobilisation purposes only, but should have a developmental bias too.

—that, in the interest of equitable tax burdens, differential rate structures should be resorted to. However, such rate differentials should not be determined in an *ad hoc* manner, but should be justifiable in terms of the criteria of equity and administrative feasibilities.

—that, within a given municipality also, the principle of equity should not be given a go-by through identical tax burdens on all assessees, and

—administrative considerations should weigh heavily in determining how efficiently and cheaply the taxes can be realised.

The point may well be made that given such a strategy, there may be some limitations in balancing the budgets in cases of some of the municipalities. One can, however, wonder as to how many municipalities in West Bengal are today standing on their own anyway. As is well known, huge subsidies from the State Government account for most municipalities functioning even at the present subsistence levels.

Given a rational tax structure embracing all the municipalities, it is believed that the West Bengal Municipal Finance Commission*, which is now at work, would be in a better position to define the principles on basis of which state government's grants to the municipalities could be determined in the future which by itself is essential so that the current *ad hocism* in distributing State Government's funds amongst the municipalities could be given a permanent good-bye.

SOME OPTIONS FOR RATIONALISATION OF CURRENT TAX STRUCTURES

The following proposals were mooted in the context of the study for reforms which could be introduced immediately:

1. classification of municipalities and levy of different rates for different classes of municipalities ;

* The Commission submitted its report in March, 1982.

2. introduction of consolidated rates of taxes instead of the service lines as in vogue now and rebates where certain civic services are not provided ; and
3. for the consolidated rates for any given class of municipalities, introduction of a progression in taxes so that different rates are payable depending upon the annual values of the assessed properties.

The Case for Classification of Municipalities

To begin with, the point must be made that classification is not a new concept so far as West Bengal municipalities are concerned. Thus, Schedule V in the Bengal Municipal Act, 1932 stipulates that in Howrah, Kurseong and Darjeeling, the rate of holding tax under section 124 may be fixed at 15 per cent (instead of 10 per cent, for others). The Maharashtra Municipalities Act, 1965 uses population-size as the basis of classification—municipal areas with a population of more than 50,000 being designated as 'A' class ; with a population of more than 20,000, but not more than 50,000 being listed as 'B' Class ; and with a population of 20,000 or less being labelled as 'C' class.

In the light of the issues raised earlier, namely, the need for hierarchical relationships between Calcutta Corporation and various levels of other municipalities, on the one hand, and along with the size of population consideration of the economic activity levels of the concerned municipal areas, on the other, it is, therefore, necessary to identify such norms for classification of municipalities which can be codified in the form of legislation which, in turn, may withstand judicial scrutiny, too.

This, indeed, is an extremely complex task as the economic development criteria cannot be quantified in a manner so as to stand the tests in the law courts, and so are the problems with the levels of civic services.

In West Bengal's peculiar situation, mixed concepts of population sizes and CMD and non-CMD areas can, however, be used to evolve a system of classification one model of which could be as follows :

—at the top of hierarchy, one could include Calcutta Corporation and other municipalities with a population of, say, more than 1 lakh—which would cover Howrah, Asansol, Bhatpara, Garden Reach, Panihati (and Siliguri in the near future) to be called category I municipalities.

—at the next level could be all other CMD municipalities and such non-CMD municipalities with a population of above 50,000 and up to 1 lakh to be called category II municipalities (among the non-CMD municipalities, such classification would cover Siliguri,

Nabadwip, Bankura, Berhampore, Kharagpur, Purulia, Cooch Behar and Bongaon) ; and

—all others could be grouped under category III municipalities.

As is obvious, many other options can be thought of and such exercises become meaningful once the basic principles are accepted, and a general policy frame is outlined.

Introduction of Consolidated Rates

The case has already been adequately argued above that there is no rationale whatsoever for continuing the present practice of splitting the property taxes under the various heads.

Consolidated rates should, therefore, replace the separate levies for holding, conservancy, lighting and water taxes.

Of course, differential rate structures are a must for different classes of municipalities.

Adoption of Straight Line Method for Progression in Taxes

Within any given municipality, as argued earlier, progression in taxes depending on the annual values is a must. The paper on 'Finances of Calcutta Corporation', referred to earlier, had dealt with the merits and demerits of the various options available. The Straight Line Method highlighted there and now adopted by the Government of West Bengal in the Calcutta Municipal Corporation Bill, 1980, should be considered for the West Bengal Municipalities, too. The terminal values, under the Straight Line System, for various categories of municipalities could be as follows :

	Category I	*Category II*	*Category III*
Rs. 1,000 and below	11%	9%	7%
Rs. 18,000 and above	40%	38%	36%

The corresponding Straight Line Equations would be :

Category I municipalities

$$\% \text{ rate} = 10 + \frac{\text{annual value in Rs.}}{600}$$

Category II municipalities

$$\% \text{ rate} = 8 + \frac{\text{annual value in Rs.}}{600}$$

Category III municipalities

$$\% \text{ rate} = 6 + \frac{\text{annual value in Rs.}}{600}$$

The rate structure as proposed under category I municipalities forms the basis of the rates prescribed under the Calcutta Municipal Corporation Bill, 1980.

Differential Rates for Non-Residential Cess

In case of non-residential uses for properties, the Calcutta Municipal Corporation Bill provides for a surcharge at rates not exceeding fifty per cent consolidated rate.

Keeping in view the compulsions for dispersal of the economic and employment opportunities in non-Calcultta areas, the non-residential surcharge in the case of category II and category III municipalities could be substantially less or may not even be imposed.

Such a move would ensure that both the economic development and the taxation policies are directed towards the common goals for future dispersal of economic opportunities in the backward areas and the two policies no longer work at cross purposes as is the case now.

THE BASIC ISSUE OF LOW VALUATIONS

With these reforms, while improvements in the levy of taxes in the municipal areas would certainly be noticeable, the basic problems due to the rent based rateable valuation system would still persist.

That the problems due to the use of this system are extremely complex is demonstrated by the extremely low valuations of the properties in 11 CMD* and a non-CMD† municipalities covered by this study, as is shown on next page.

It is thus seen that 30 per cent of the holdings in non-CMD municipalities and 26.57 per cent in CMD municipalities have an annual valuation of Rs. 50 and below, only. Furthermore, 99.11 per cent of the assessees in the CMD municipalities and 97.06 per cent in the non-CMD municipalities have a valuation of Rs. 2000 and below.

The submission has been made that while municipalities must be given a preferential treatment in the matter of fixation of rates, even

*CMD municipalities surveyed include—Bansberia, Barasat, Bhadreswar, Budge-Budge, Champdany, Dum Dum, Khardah, New Barrackpore, North Barrackpore, Naihati and Rajpore.

†Non-CMD municipalities covered are—Asansol, Baduria, Balurghat, Bankura, Birnagar, Bishnupur, Bongaon, Bolpur, Chandrakona, Cooch-Behar, Dainhat, Dhulian, Ghatal, Jhaldah, Kandi, Malda, Midnapore, Ranaghat, Raghunathpur, Sonamukhi and Tamluk.

CMD Municipalities

Valuation Range	*Total No. of Holdings*	*Percentage of Holdings*	*Total Valuation*	*Percentage of Valuation*
Rs.			*Rs.*	
50 and below	18,512	26.57	5,17,064	1.29
51-2,000	50,533	72.54	1,14,11,448	28.43
2,001-5,000	360	0.52	10,88,991	2.71
5,001-9,000	88	0.12	6,13,940	1.53
9,001-15,000	55	0.08	6,67,375	1.66
above-15,000	117	0.17	2,58,38,241	64.38
	69,665	100.00	4,01,37,059	100.00

Non-CMD Municipalities

Valuation Range Rs.	*Total No. of Holdings*	*Percentage of Holdings*	*Total Valuation Rs.*	*Percentage of Valuation*
50 and below	35,357	30.00	9,22,787	1.93
51-2,000	79,019	67.06	2,42,44,711	50.67
2,001-5,000	2,492	2.12	77,93,350	16.29
5,001-9,000	560	0.48	37,36,110	7.80
9,001-15,000	216	0.18	26,10,091	5.45
above 15,000	183	0.16	85,45,709	17.86
	1,17,827	100.00	4,78,52,758	100.00

while the present rent based valuation system remains in vogue, absolutely uniform standards are necessary for assessment purposes and the data above show that there is enough scope for improvements on this front also. □

Property Tax Administration in Urban Local Bodies : A Study in Haryana

PARTAP SINGH

PROPERTY TAX is one of the oldest taxes that still exists in one form or another in most of the countries in spite of criticisms against it. In countries like UK, USA, Canada and Australia, it is the highest and the most important source of tax revenue for local bodies. In India also it is so for urban local bodies, especially the States where octroi is not levied. Its percentage contribution to the total tax revenue is as high as 82 per cent in West Bengal, 78 per cent in Assam, 77 per cent in Bihar, 47 per cent in Tamil Nadu and 46 per cent in Bombay[1]. In Haryana, the property tax contributes, on an average about 11 per cent to the total tax revenue.

The local bodies in India like those in USA enjoy only delegated powers for raising taxes. The property tax, generally known in India as tax on lands and buildings, owes its constitutional authority to item No. 49 of the State List, described as 'tax on lands and buildings'. Traditionally, it is a tax on immovable property and thus furniture and fixtures and even industrial machinery do not come within the purview of the tax. Further, it is a combination of a general house tax and traditional service charges for water, conservancy, lighting, drainage, etc. It might be pointed out here that a proper balance between the 'general' and 'service' parts of the property tax has not been maintained by the municipal bodies in Haryana. Among the service taxes only water tax and water rate have been levied by a few municipal bodies. Moreover, the levy of the 'general' and 'service' parts of the tax has been kept separate throughout. Since the service taxes form a separate and very small part of the property tax in the municipal bodies in Haryana, only the administration of the general property tax, *i.e.*, tax on houses and lands is being discussed here.

[1]*Report of the Rural-Urban Relationship Committee*, New Delhi, Ministry of Health and Family Planning, Government of India, 1966, Vol. I, p. 113.

Administration of the property tax is a multi-phased programme consisting of valuation of properties; preparation of assessment lists; hearing of objections; and collection.

Modernised techniques for sound property tax administration are practically unknown to the municipal councillors and improved methods of valuation and assessment and vigorous tax collection techniques have not yet been employed. The administration of the tax is influenced by many forces. The parties choose different strategies for their own ends. The owner of the property is interested in under-valuation. The assessment agency may be tempted to become a party to under-valuation if it is tipped, or is influenced by political pressure. The taxpayers, including elected councillors, are interested either in minimum tax levy or in no levy at all. Consequently, the tax is either ignored or maladministered with the result that the optimum revenue is never realised. Table 1 shows the revenue of the municipalities in Haryana from the property tax over the past five years.

Though the percentage of revenue from the tax has increased from the 10.94 in 1964-65 to 11.92 in 1968-69, the increase is not very encouraging. There is still scope for augmenting revenue yield from the tax.

On close scrutiny, several factors have been found to be responsible for the low productivity of the tax.

DEFECTIVE AND OUTDATED MACHINERY OF ASSESSMENT, REVISION AND APPEAL

The existing machinery of assessment, revision and appeal has been responsible for causing much loss of revenue to the municipal bodies from the property tax. The administrative responsibility for preparing the assessment list, its revision and hearing of objections lies on the municipal committee and where there are executive offices, this responsibility vests in the executive officer. However, the number of municipal committees having an executive officer is very small and moreover the executive officer himself depends for his term of office upon the members of the committee who can remove him by a two-thirds majority vote. He is, therefore, very often influenced in the preparation of assessment list by the members. This means that the municipal councillors play the most significant role in determining property valuation. It is too much to expect that the assessment made by the members, who depend on the votes of the assessees or on the goodwill of the persons whose own or their friends' properties are to be valued, would be objective and fair. Group interest and party pressure weigh with them more than any other consideration in the preparation of assessment list. In quite a few municipalities, assessments are made and reduced arbitrarily for the benefit of

TABLE 1 REVENUE FROM THE PROPERTY TAX

Year	*Total Tax revenue*	*Revenue from property tax*	*Percentage to total tax revenue*
1964-65	15,107	1,502	10.94
1965-66	19,530	1,947	10.53
1966-67	21,153	1,971	10.06
1967-68	24,019	2,527	11.40
1968-69	28,771	3,161	11.92

SOURCE : Collected and compiled from : (*a*) *Statistical Abstract of Haryana for the year1966, 1968-69 and 1969-70,* (*b*) *Statistical Abstract of* (*composite*) *Punjab, 1965.*

assessees to values which sometimes are even below those declared by the assessees themselves[2]. Even if assessment is done with care and competence, its benefits are lost at the stage of appeal to the House Tax Sub-Committee consisting of elected representatives whose decisions may either be ever sympathetic or biased. Highest pressure is exercised at this stage. The tax payer makes clever bids to get his tax reduced.

Though the Municipal Act provides for appeal against the decision of the Committee to the District Magistrate, a large number of assessees do not consider it worthwhile to file an appeal where stakes are not very large, on account of the trouble and expense involved in the process.

If the municipal bodies are to ensure fair and efficient valuation of municipal properties and want to improve the revenue yield from property tax, they should give up the practice of property valuation by their own untrained and low-paid staff and bring into being an impartial and independent central valuation agency for all the local bodies within the state. The American experience has shown very clearly that efficiency of assessment is incompatible with the local control of the assessor. Under a purely local system of tax administration, observes Prof. Bullock "there never was and never will be a generally satisfactory assessment of either income or property. Central control of the process of assessment is necessary for the successful operation of either a property or an income tax and hardly more so for the one than for the other"[3]. In UK responsibility for property valuation for local rating purposes has been transferred to the Board of Inland Revenue—a central government

[2] *Annual Report of the Local Audit Department,* Haryana, 1966-67, p. 7, *Audit Report of the Municipal Committee,* Sirsa, 1969-70, para 16 (a),

[3] *Report of the Taxation Enquiry Commission, 1953-54, New Delhi, Government of India,* Vol. III, p. 482,

department. This system of centralised assessment "offers an uncomplicated and effective means of obtaining uniformly high standard assessment throughout the state, by the use of professional staff following standard methods and procedures under central directions. . . The advantage of this system would be that even local bodies whose limited resources do not permit employment of highly paid and qualified valuers will be able to get the services of the valuation department of the state Government. Once such a valuation department is set up, reassessment of urban properties can be taken up systematically, at regular intervals, and the cases of unequal and under assessment, which are very common now, can be removed to a great extent"[4].

The personnel of the valuation agency should be specially trained for efficient discharge of their highly technical duties and their working conditions should ensure a high morale. The duties imposed on the agency should be reasonably accompanied with adequate legal power to discharge them and no revisional or appellate functions should be vested in the municipal councillors.

NON-UTILISATION

In spite of their poor finances, which prevent them maintaining satisfactory standards of municipal services as well as from undertaking town planning and other important schemes of public health and sanitation, not all the municipalities in Haryana have levied the property tax. For instance, in 1966-67, out of 59 municipalities only 48 levied property tax. The non-levy of the tax, besides depriving the municipal authorities of the much needed revenue, has also made them lean heavily on octroi duty as the main source of their tax revenue, thus linking the entire strength and stability of their tax revenue with the fluctuations in the contribution from this single source.

There is an urgent need to ensure the levy of the tax by all the municipal bodies for achieving equity in tax-burdens as well as for attaining fiscal soundness. The State Government should, therefore, be empowered to compulsorily require a municipal committee to impose any tax and impose the tax itself in case of committee's failure to do so. Further, grants should not be released to those municipalities which fail to levy the tax until such time as the tax is levied by them.

UNDER-UTILISATION

Under-utilisation of the tax has resulted in loss of revenue to the municipal [bodies. The Municipal Act has fixed up a maximum at

[4] *Report of the Committee of Ministers on Augmentation of Financial Resources of Urban Local Bodies*, New Delhi, Government of India, 1963, p. 39.

per cent up to which the local authorities have discretion to raise the rate of the tax, but the actual rates charged by the municipal bodies fall short of this limit. This is illustrated in Table 2.

TABLE 2 ACTUAL RATES OF TAX LEVIED, 1966-67

Number of Municipalities	*Tax Rate Per cent*
17	7½
13	6¼
4	6½
4	10
4	12½
3	8
3	7½

SOURCE : Collected from *District Municipal Year Books, 1968.*

It is clear that during 1966-67 only 4 out of 48 municipalities levied the tax at the statutory rate of 12½ per cent while majority of them levied the tax at rates which could hardly be termed reasonable. Since the burden of the tax falls directly on the residents, the muncipalities are reluctant to levy it at sufficiently high rates. Invariably when the rate of the tax is raised, there is general dissatisfaction, giving rise to popular agitation and demand for its reduction. This finds support from the opponents of the party or group in power. It is, therefore, suggested that there should be a statutory minimum rate of 12 per cent on the annual rental value of the property as general house tax.

NO PERIODICAL REVISION OF ASSESSMENT

As a rule, assessment of properties is to be revised every three years. However, for want of appropriate machinery, it is not unusual that the assessment lists are not regularly revised and the old lists continue to operate for a long time. This means that properties are taxed at their values prevailing several years back. The Annual Audit Report (1967-68) of Haryana pointed out that "House tax assessment was based on survey of properties conducted by committees seven or eight years back. Thus the current rental values of the buildings were not taken into consideration, while in other cases the newly constructed buildings were not assessed to the tax"[5].

Periodical revision of annual values of the buildings and lands is necessary for full utilisation of the productive capacity of the tax. The

[5] *Annual Report of the Local Audit Department*, Haryana, 1967-68, p. 5.

executive officer should, therefore, be made accountable for the timely periodical revision of assessment work. He should maintain an up-to-date list of new buildings constructed and additions and alterations to existing buildings made since the last valuation. This would also expedite the work of valuation.

GRADUATION IN PROPERTY TAX

The system of graduation in property tax existing in the rate structure of corporations should be introduced in the rate structure of municipalities, as an application of the principle of 'ability to pay' and as a measure of securing larger revenue for the municipal authorities. Since the municipalities in Haryana, at present tax, income from sources other than immovable property, through the levy of profession tax on a progressive scale, there is every justification for taxing the income from immovable property also on a progressive scale, as non-levy of property tax on a progressive scale indirectly makes the income from immovable property liable to tax at relatively lower rates.

EXEMPTIONS

Low productivity of the property tax may also be explained by the fact that the municipalities make too much liberal use of the exemptions under the tax. The classes of property to be exempted from the levy of the tax have not been specified in the Act with the result that exemptions are wrongly granted.[6] Table 3 shows the total number of residential houses along with the number of houses subjected to and exempted to from the tax by the municipal committees in Karnal district in 1966-67.

It is interesting to note that except in the case of Kaithal the number of houses exempted from the tax is quite large in every municipality. At places like Gharaunda and Shahabad the number of such houses is greater than the number of houses subject to tax. This is partly because of liberal use of exemptions and also partly because of the lack of proper scrutiny of the lists of houses enjoying exemptions. To improve the revenue yield from the tax the municipalities should scrutinise the lists of properties exempted from the tax carefully from time to time in order to see whether exemptions granted to such properties are justified or not. A proper scrutiny will show that a large number of houses which enjoy exemption may become liable to the general property tax. Further, the principles of exemption should bel aid down in the Municipal Act. Exemption should not be allowed on the ground of the annual rental

[6]See in this connection, *Inspection and AuditReport,* Municipal Committee, Panipat, 1970-71, paral 7.

TABLE 3 HOUSES SUBJECTED AND EXEMPTED FROM TAX

Name of municipal committee	*Number of Residential Houses*				*Total Cols. 2 to 5*
	Subject to tax		*Exempted from tax*		
	Private	*Government*	*Private*	*Government*	
1	2	3	4	5	6
Gharaunda	1,083	4	1,306	11	2,404
Kaithal	5,920	757	209	8	6,894
Karnal	8,516	45	4,511	—	13,072
Ladwa*					
Panipat	25,837	125	10,226	125	36,313
Pehowa	1,820	15	600	—	2,435
Pundri	1,155	—	819	2	1,976
Radaur	800	2	—	—	802
Shahabad	1,878	—	2,352	—	4,230
Thanesar	4,291	—	—	427	4,718

*In Ladwa no house tax has been levied.

SOURCE : District Statical Office, Karnal.

value falling below Rs. 120 as at present, provided the assessee has some other source of income besides immovable property.

ARREARS

If the assessment of property is unsatisfactory, the collection of the tax too remains far from satisfactory. The municipal authorities have woefully neglected the work of collection of the tax. Arrears continue to accumulate till they become irrecoverable and are, then, written off. The accumulation of arrears may be attributed to ; (1) lack of proper and adequate collecting and supervisory staff ; (2) unwillingness of the collecting staff to take prompt and timely measures for the recovery of the tax ; (3) delay on the part of the collectors to invoke the provisions of the Land Revenue Act against the defaulters whose cases are reported to them ; (4) failure on the part of the State Government to take action under Section 98 of the Haryana Municipal Act; (5) delay on the part of the State Government Departments to clear the arrears outstanding against them ; (6) delay in the preparation and completion of assessment lists and disposal of objections ; (7) and (8) unwillingness of the public to pay.

Table 4 gives a clear picture of the position of house tax arrears in the municipal committees of Karnal district which represents the general position of house tax arrears in the municipal committees in the state.

It is surprising that the arrears, instead of showing any decline, have

been mounting up in places like Gharaunda, Shahabad, Pehowa and Panipat. Only in the municipalities of Kaithal and Thanesar have the arrears shown substantial reduction while in others only marginal improvements have taken place.

The municipalities have neglected the work of recovery of arrears can be seen from the fact that the pace of recovery is generally below the mark of 90 per cent prescribed by the State Government.[7]

Another surprising feature of the house tax arrears is that a number of municipal committees are among the defaulters. In some cases even the names of the municipal president and vice-president figure in the list of defaulters.

Improvement in the machinery of tax assessment will by itself produce no tangible effect if the machinery of tax collection is also not improved simultaneously. The effective means to improve the collection machinery is to improve the efficiency of the municipal personnel. The collection of tax now-a-days requires trained and competent persons. However, unless, the salary scales and conditions of municipal service are made more attractive, it is difficult to attract the right type of persons for the job. Ways and means should be devised for transfer of tax collecting staff on rotation basis so that no one is confined to any particular area or job for a long period. There is further scope for improvement in collections if the following measures are taken :

TABLE 4 HOUSE TAX ARREARS IN MUNICIPAL COMMITTEES

Name of Municipalities	*Arrears on 1.4.1968*	*Arrears on 1.4.1969*	*Percentage of collection*
	(*Rs.*)	(*Rs.*)	
Gharaunda	17,682	21,712	42
Radaur	12,106	8,081	66
Kaithal	33,063	89,715	72
Karnal	2,01,784	1,44,911	61
Panipat	17,683	1,53,845	47
Thanesar	1,21,328	47,147	72
Shahabad	19,864	34,024	50
Pehowa	14,392	18,055	50
Pundri	Not available		

SOURCE : A study conducted by the author of *Arrears of Municipal Taxes in Haryana.*

1. The executive officer should be made responsible for tax collection falling below 75 per cent of the total demand.

[7]*Composite Punjab Government Endorsement No. 9124-CI/4778,* December 8, 1965.

2. The municipal committees should have the power to proceed not only against movable property but also against immovable property for the recovery of their taxes.
3. The State Government should provide an incentive grant to the municipal committees for prompt recovery of their taxes.
4. In case of repeated defaults in recovery of the tax arrears, the municipal committees should be made to lose the grants-in-aid either in part or even in full.
5. Incentive should be given where it has not been given for prompt payments, by allowing rebate of 10 per cent on the tax due if the payment is made within the prescibed time. Conversely, a penalty should be imposed on late payments.
6. A provision should be made in the Municipal Act to disqualify a person in arrears of the municipal taxes from seeking election to the municipal body.
7. A separate list of defaulters should be prepared and the supply of municipal services should be stopped to them.
8. Mass contact compaign may be resorted to from time to time to stir awareness of the need for such collections of arrears. This exposes the defaulters to public criticism.

The future of municipal finance depends on the full exploitation of the tax on lands and buildings. The yield from the property tax can be easily doubled by making the levy of the 'service part' of the tax compulsory for the municipal bodies. The non-levy of service taxes such as conservancy tax, drainage tax, lighting tax, etc., results in the deterioration of such services merely for want of adequate finance. Moreover, there is every justification for levy of conservancy and drainage taxes as in some form or other these services are rendered by the municipal authorities.

Calcutta Corporation's Property Taxation : A Story of Loss of Potential Demand*

MRINAL KANTI BHATTACHARYA

THE NEGATIVE opening balance of (—) Rs. 0.38 crores in the budget estimate of the Municipal Revenue Fund of Calcutta Corporation in 1969-70 has snow-balled to (—) Rs. 34.73 crores in 1980-81. It appears that the local body is thriving by fiscal indiscipline in the management of different intra-and inter-institutional accounts resulting in a travesty of the budgeting practice. But this steady deterioration of local public finance has taken place amidst an unpublicised older story of regular loss of potential revenue of property tax due to delay in finalisation of annual assessment. Such a situation has been found to be running since 1961-62 and it is presumed that the story might be as old as the date of enforcement of the present Calcutta Municipal Act, 1951.

Based on estimates of recent times it has been found that the Calcutta Corporation has experienced an annual average loss of property tax revenue of Rs. 2.61 crores resulting from uncreated supplementary and fresh demand bills. Besides loss of revenue it has serious implications in inter-personal fiscal justice because the negative tax burden of such uncreated demand do not flow evenly to all. Moreover, there is no one comprehensive register of demand bill created and collection in Calcutta Corporation, as in Bombay and Delhi, to show the annual picture of the rate-payers, unit by unit, in respect of local tax incidence. All these have resulted in grotesque maladministration of discriminatory nature in property taxation of Calcutta Corporation.

Such a continued lag in local administration running under the overall surveillance of the State Government is an anachronism in modern public administration. The absence of administrative accountability in the Calcutta Corporation's top management and scant internal control

*The article is based on a two-year research report on Calcutta Corporation's property taxation done by the author as a Senior Fellow (1976-78), Indian Council of Social Science Research, New Delhi, at the Indian Statistical Institute, Calcutta.

(like internal audit) failing to focus the results of an organisation's performance before the key centres of decision-making channel vertically up to the Secretary, Department of Local Government and Urban Development, are the spot reasons for lack of knowledge of such continued inefficient administration.

AIMLESS RE-ASSESSMENT

Calcutta Corporation has about 1,36,000 assessment units. In the quarterly billing system each property receives its property tax demand in two half-share bills meant for owner and occupier. But in almost all the cases both the bills are to be paid by the owner. A unit of assessment, therefore, receives eight regular bills per year. But this is not all. This regular bill is what is known as preliminary demand bill or simply PD. This levy is assessed by rating on the last-finalised annual value of the property determined by valuation on rental basis. There is the system of general revision of assessment, commonly known as GR, at an interval of every six years. This re-assessment continues in a cycle as per assigned wards for each quarter of six years according to governmental order. Once a six-year cycle of GR is over the following cycle catches up. Again, side by side with this six-yearly GR there is the system of intermediate valuation, with Inter as the usage, of those assessment units which have undergone some change. Inspectors of the assessment department roaming throughout the 100 wards of the city are regularly doing Inter wherever they can detect such cases. The revision of assessment of all assessment units by GR, and also Inter where due, is completed by the assessment inspectors within the scheduled time of governmental notification. But this is where regularity ends and irregularity begins. The follow-up works of valuation are all clogged up and post-valuation administration is completely aimless. According to the assessment procedure there is the provision of lodging objection to newly fixed annual value. And whether objection is lodged or not all are kept in abeyance for the time, when objections are being recorded and the statutory time-limit is of little importance. Unobjected cases will also be kept up in the shelves.

In Calcutta, hearing of objection is treated as a quasi-judicial function. The assessment officers do not review the objections. A band of five, six or seven special officers, varying from time to time as made available by the State Government, do the hearing job as per the system of allotment of wards to each. Valuation by GR or Inter does not aim at an administrative time-schedule for bringing in newdem and. Whether objection is lodged or not the annual value for rating of PD is stuck to the last-finalised value. In other words, while new valuation

is progressing every month finalisation is not keeping pace. Rating on old value continues to remain till the process of fixation of new demand is over following finalisation of annual value by hearing and consequent calculation. A rate-payer can, however, also take this finalised value to the court of law.

The second part of the story is that new demand does not follow even for all hearing-finalised cases. Once the hearing for finalisation of newly-fixed value is completed by the special officer, the result is incorporated in a statement form called order sheet for calculation of new PD by applying the levy of appropriate rate of tax. But here calculation cases pile up and only a fragment is completed to make the new PD effective from the following quarter of the year. An advice is sent to the mechanical data processing centre to this effect. This new PD was, obviously, due at an earlier quarterly section of the year depending upon the GR cycle or time of Inter. A difference demand for the intervening period lying between the quarters for PD due and PD made effective becomes due to the corporation. This matter of difference demand is also incorporated in the order sheet. And for this another advice, for supplementary demand bill, is made to the appropriate unit. of the assessment section. This supplementary bill is written by hand. The unobjected cases are also processed in order sheets with substantial, erratic lapse of time.

Beside PD and supplementary demand there is a third type of bill known as fresh bill. This is not, of course, a new demand but what may be called freshly determined (mostly) PD or supplementary or even earlier fresh bill which was withdrawn due to some defects in the bill. Bills can be withdrawn for several reasons. For example, a vacant land will get remission for the occupier's share. All bills for such properties will first be issued in two quarterly shares and then the occupier's share will be withdrawn ; similarly, properties lying vacant for some time will be entitled to vacancy remission of occupier's share; on application by the rate-payer such bills will also be withdrawn. Once a bill is withdrawn steps will be taken for inquiry, report and hearing by assessment officers for appropriate remission. After finalisation by assessor, fresh bills will be issued covering the entire period. Here again, the withdrawn bills are also not pursued according to a goal-oriented administration to collate the assessees of withdrawn and fresh bills.

Assessment of property tax is to lead to despatch of rate bills. It is unfortunate that the Calcutta Corporation has not completed a sizeable portion of year's assessment work yearly for many years now. The delay in finalisation of assessment work by hearing of objections and remission cases runs through all functional units up to writing of

supplementary and fresh bills. Such sluggish administration is resulting in mounting gaps in creation of supplementary and fresh demand. There is no system of formal closing of assessment hearing of any GR or any year's Inter or annually withdrawn bills by decisions and follow-up work up to despatch of bills. The chaotic nature of assessment hearing is seen in a study of valuation review cases made ready in April 1977 for special officer V. It has been found that out of 67 cases, 54 are GR and 13 Inter. The GR cases range from 19 number in 1963-64 second quarter to 7 in 1972-73 third quarter. In Inter cases the range is one number in 1962-63 fourth quarter to another in 1975-76 fourth quarter with others in-between. It is easy to see that different rate-payers cannot but be affected differently in matters of levy of due rate demand under such a situation. What is still more alarming is that there is no one register in the corporation which keeps a record of rate-payers serially in respect of all demand bills issued to them. Records are maintained on what has been done in a quarter. One cannot know readily from these quarterwise record books as to where two neighbours stand in respect of corporation's dues from them by way of total of all demand bills and payments made thereof. The result of this incomplete tax assessment running since long can be expressed in two forms : (*a*) inter-personal inequity in tax demand, and (*b*) colossal loss of potential revenue by uncreated demand. The first one is a corollary of the second but it requires special attention because, from value point of view, it warrants immediate attention.

COLOSSAL LOSS

An attempt may now be made to estimate the loss of potential revenue by continued uncreated bills in respect of supplementary demand. The first thing to know is the total number of potential annual supplementary demand cases from new valuation of premises. The simplest way to derive this annual figure is to start from one-sixth of the total assessment premises as the annual quota in six-yearly cycle of GR and add to this the average number of Inter cases (which have been found to be 3.6 per cent of the total assessment units) to find out annual supplementary demand cases. The number of annual GR and Inter cases will be 22,667 and 4,896 respectively in relation to 1,36,000 assessment units. The total number of GR supplementary demand cases will, however, be less than this because the assessed value will not be enhanced in re-valuation in some 5 per cent cases having 'Fair' rent for mostly rent-controlled premises. This leaves the total at 21,534 for review by hearing and follow-up actions in order sheets. Again, allowance is also to be made for hearing restoration of old value cases. The annual supplementary demand cases have been found to be 84 per

cent in a survey of 527 cases chosen by systematic sampling from order sheets' cases. The total number of annual supplementary demand cases from GR and Inter can be taken as 84 per cent of (21,534+4896) or 22,201.

The above shows that in the recent period there are annually 22,201 potential supplementary demand cases. To this is to be related the number of cases billed out annually in order to determine the annual gap. The number of supplementary demand cases billed out has been found to be far less than this because of lag in the work-stages of assessment in hearing, rate calculation as well as writing of bills. An estimate of the cases billed out has been made from the annual number of supplementary bills issued by the corporation and sample study results of order sheet cases depicting the number of bills per case. The study has been done separately for Calcutta (proper) with 91 wards and Tollygunje. The average annual number of supplementary bills issued in Calcutta (proper) in sixteen years from 1960-61 to 1975-76 is 1,27,152 with average bill value as Rs. 38.75. The study of 383 supplementary bill case samples in respect of Calcutta (proper) out of 527 cases from order sheets shows the average number of bills per case as 39.6. The supplementary bill value per case is, therefore, a figure of Rs. 1.535. The average annual number of cases billed out for these 16 years ending 1975-76 can, therefore, be calculated as 3,211. Now, the number of new demand cases for Calcutta (proper) in the total of 22,201 cases is 16,291 and the number of cases billed out is 3,211. The potential supplementary demand gap for a recent year can, therefore, be estimated as 13,080 cases or Rs. 2.01 crores. Proceeding like this for Tollygunje with estimated supplementary bill value per case as Rs. 433 the gap is found to be Rs. 0.21 crores. The total annual gap in supplementary demand creation in Calcutta Corporation is, therefore, Rs. 2.22 crores.

A similar lag also persists in creation of fresh bills in lieu of bills withdrawn after issue. The Assessment Department of Calcutta Corporation withdraws bills from the collection department in requisition books. But the final act of issue of fresh bills, after the lapse of time taken in decision, is not recorded in these books. There is no comprehensive record book again to show the results of withdrawal and re-issue of bills serially in the name of rate-payers. The serious problem of inter-personal equity is also equally prevalent here as all withdrawn bills are not administered.

It may be argued that over a period of time there must be a parity between bills withdrawn and fresh bills issued after making allowance for the correction factor incorporating the reasons of withdrawal. This allowance pattern has been estimated by a study of the fresh bills issued in the third quarter of 1977-78 in Calcutta (proper). In these 114 cases

studied, the average re-issue value was found to be 86 per cent of the withdrawn value. Applying this for the sixteen years ending in 1975-76, it may be seen that the average annual issue of fresh bills should have been 86 per cent of Rs. 1.12 crores of withdrawn bills or Rs. 0.96 crores. But the average issue for the said period is actually Rs. 0.60 crores. The annual gap here is, therefore, Rs. 0.36 crores. The same for Tollygunje is estimated as Rs. 0.03 crores to give the total for Calcutta Corporation as Rs. 0.39 crores. This is what may be called loss of potential revenue by continued uncreated demand in fresh bills. It may be added at the end, however, that both these estimates are conclusively indicative of the actual situation persisting for a long time now though actual estimates, year by year, may give different figures.

LOPSIDED CONTROL

A history of thirty years of sub-optimal property tax demand creation proves shambles of local public administration. The story of lackadaisical property tax assessment remained confined within the four-walls of the assessment department. Otherwise, when crores of potential revenue of supplementary demand were being hidden in the order sheets and objection registers, the commissioner's budget estimates report of Calcutta Corporation could not make provisions of average annual supplementary demand as Rs. 0.63 crores in the sixteen-year period from 1960-61 to 1975-76 with average annual crea ed demand as Rs. 0.49 crores. But the assessing officials could never thrive in water-tight compartment with unfettered administrative linkages hierarchically up from deputy commissioner (revenue), commissioner, mayor (or administrator at times of supersession) and finally Secretary, Department of Local Government and Urban Department. In fact, all local bodies are supposed to send to the State Government in printed pro-forma an annual statement of income and expenditure—a practice enforced for all but Calcutta Corporation. Above all, out of dire financial hardship Calcutta Corporation has been asking for more revenue from the state by way of grants, shared-revenue and exclusive jurisdiction of some taxes without diving into its own gold mine because there was never a clear internal research-based report about the true form and dimension of this perennial uncreated demand at hand of the top management from the civic body to the state headquarters. The aimless re-assessment and colossal loss of potential property tax revenue by continued lag in property tax administration in Calcutta Corporation could not persist for decades had there been surveillance from superior administrators based on one's own staff report from internal research. It cannot be that decisions were not there during these thirty years from 1951 to change things ; but it can be that quality of decisions was not

gliding up; and how can they do so unless decision-makers have organisational men to work as staff assistants to place before them research-based papers showing alternative consequences of possible courses of action ?

OTHER SYSTEMS

Bombay and Delhi follow a completely different system of property tax administration. The base of the tax is, of course, the same, *i.e.*, annual rental value. Rating in Bombay is basically flat, and not progressive as in Calcutta, under the benefit principle of (local) taxation as against the principle of ability to pay. Both levy single-share rate demand bill in owner's name. Bombay sends two bills in the year ; Delhi, only one. Rate-payers can, however, pay by instalments if they so prefer and with approval of authorities at the time of payment. A highly significant matter is that a rate bill incorporates the past dues of arrears as well as the current demand. And still more important element is the comprehensive register of demand and collection. In Delhi it records serially for all rate-payers four yearly figures of arrear, demand and collection. A model of the register can be found in the Punjab Municipal Act, 1911. The pivot of administration in Bombay is tight business-minded programme performed under superior's chase-up in completing year's job yearly. Another feature of fundamental difference having substantial impact on the volume of work involved is that there is nothing like periodic general revision of all assessment premises. Instead, they practise the system of annual revaluation of selected properties, like the cases of intermediate valuation in Calcutta, which have undergone some physical reconstruction or have had change of rent.

Bombay follows the practice of completion of all formalities of new assessment cases on fiscal year basis and billing of both categories of assessment premises for yearly demand according to one time schedule. The assessment staff of Bombay will complete field work regarding revaluation of the 'due' premises by 15th October for effectuation in the following fiscal year. The receipt of objections to new assessments will be completed by 15th November ; hearing settlement of the revised annual value will be achieved by 15th February. Re-assessment is affected by demand bills for the following fiscal year in the new assessed value fixed by the corporation. Year's first bi-annual bills bill be sent by the IBM centre to the respective ward offices by the 5th April, by 10th no less than 2/3rd bills are despatched and by 15th all bills for the first half of the year for all assessment units, including the ones which have undergone revised assessment for the current fiscal year, will be sent to the owners. The result is that all potential demand of Bombay

Corporation's property tax is created annually on a regular basis. One may, however, lodge a legal suit after payment of the new demand. There remain, of course, a few unresolved assessment disputes with the corporation at the beginning of the fiscal year. These relate to complicated and big institutional assessments. In 1976-77 Bombay had a total of 2,21,352 units of assessment. The number of annual re-assessment cases was 15,788 or 7.1 per cent of total. It had 888 cases of pending objection as of 1st April, 1977. The system followed by the Delhi Municipal Corporation is very much akin to that in Bombay. Another common administrative device connected with review of revaluation is the practice of sending rent-cum-building data return form, appended with demand bill, to all rate-payers for self-filling and despatch to the civic headquarters. The send-back of this return form, with data filled in is taken as an important instrument about the assessee's points of dispute with corporation's re-assessment at the time of its review. In fine, this seriousness in administration has earned both fear and respect for the civic officials and are revealing in the business talks between the assessee and the assessment officer.

The whole gamut of assessment function in Bombay and Delhi is run on principles of diffusion of power as well as lack of surveillance of superiors. The nineteen ward offices in Greater Bombay are run as mini corporations each headed by a ward officer. An assistant assessor and collector under the ward in-charge takes full care of property tax administration in that ward. Three deputy assessors and collectors for city proper, eastern zone and western zone areas pay routine visits to their respective zonal wards to supervise the work. The nature of decentralisation of power up to the headquarter level can be understood by looking at the graded review system. The assessor and collector in Bombay reviews re-assessment of properties valuing more than Rs. 1.50 lakhs. The deputy assessor and collector is the hearing officer for properties with value lying between Rs. 70,001 and Rs. 1,50,000. The assistant assessor and collector is for review of properties up to Rs. 70,000. The top management of Delhi Municipal Corporation has one assessor and collector, one joint, six deputy and 33 assistant assessor and collectors. Additionally, there is one tax recovery collector of the status of a deputy assessor and collector.

QUO VADIS?

Calcutta's property taxation with six-yearly GR and annual Inter has produced the net result of perennial incomplete administration for some thirty years now. Bombay and Delhi with annual revision of assessment of selected premises have achieved relatively higher administrative efficiency in completing year's work yearly.

A big change in the assessment administration of Calcutta has now been brought from the first quarter of 1978-79. An internal re-organisation has done away with the previous functional system of administration. Instead, seventeen assessment divisions have been framed where sixteen territorial divisions deal with allotted wards in respect of total assessment function from valuation to writing of supplementary and fresh bills. The seventeenth division deals with assessment matters related to civil courts and Calcutta Improvement Trust. The preparation of PD bills remains centralised in the mechanical data processing centre running since 1974-75. A new cell has been created to write arrear supplementary bills from past completed order sheets. The system of hearing of objections to valuation by special officers remains the same and away from the four-walls of the new assessment divisions.

The jurisdictions of these sixteen divisions do not tally with those of the collection department's fourteen divisions. Hence the dual organisation of assessment and collection remains for Calcutta (proper) with 91 ward along with the system of combined assessment and collection in Tollygunje division with 9 wards as in the past. The replacement of the functional organisation of assessment by territorial jurisdiction does, therefore, remain incomplete in an important way by retention of the mechanism for hearing of objections by special officers. The data recording system with old registers does also remain unaltered.

The objectives behind the reorganisation are now to be compared and contrasted with derived results. The revenue potential of re-valuation by GR and Inter should be fully utilised by creating demand bills so that discriminating injustice from incomplete assessment is wiped out along with putting in revenue to the coffers of the city government. Whether the reorganisation has stemmed the decades old rot will remain as the moot question until it is established by internal research papers that year's work is being completed yearly in respect of Inter's of all divisions and GR's in concerned divisions since 1st April, 1978. □

An Experiment in Mechanisation in the Property Tax Department of the Municipal Corporation of Delhi

S. M. GOYAL

IT WAS thought in 1964 to instal an automatic data process machine as an experimental measure for partial mechanisation of the processes of preparing bills and notices and maintenance of the accounts of the property taxes with a view to bring in greater speed, neatness, accuracy and economy in the working of the assessment and collection department. With the approval of the corporation the scheme was started in April, 1967. In 1970 its working was studied and reviewed by the O & M unit and in the light of the findings this step had to be retraced. The object of this paper is to briefly recount the experience gained and to state the circumstances under which a decision had to be taken contrary to the general faith that mechanisation always results in efficiency in work and economy in expenditure.

CONDITIONS OF THE EXPERIMENT

For better understanding, it is necessary to first narrate two important conditions under which the scheme had to be worked. These were: (*a*) the zonal set-up, and (*b*) the annual billing system.

The jurisdiction of the Delhi Municipal Corporation has been divided into eight zones with offices situated from a distance of 2 to 15 kms. from the headquarters at the Town Hall. A branch of the assessment/collection department functions in each zone to deal with the assessment and collection work. The issue of bills and notices for property taxes and the maintenance of connected record including the demand and collection registers is done in the zones. The daily collections have to be remitted to the head office along with a challan for credit to municipal funds.

The amount of property taxes is payable in full in one instalment, the beginning of the year on the presentation of the bill. Failing payment within the time allowed, notices have to be issued to tax payers concerned. Thereafter the field staff has to follow up according to the prescribed procedure.

EXTENT OF MECHANISATION

Work Allotted

It was proposed to introduce mechanisation gradually. In the first year it was restricted to 82,700 demands of two zones, in the second year 20,500 demands of another zone were added and in the third year another 22,900 demands of another zone were added, so that by 1969-70, a total number of 1,26,100 demands relating to four of the eight zones had been covered under the scheme.

The machines were installed at the headquarters and so the work of preparation of bills, notices and accounts in the form of demand and collection registers in respect of these four zones was done at the Town Hall while the work relating to assessment of taxes and payment of dues was done in the zones. About an equal number of demands in respect of the remaining four zones continued under the manual system and the entire work in regard to them continued to be done at the zones.

Machines Installed

The following machines were installed :

(*i*) Main machine with a capacity to print about 6000 bills in a day and processing about 200 cards per minute.

(*ii*) Auxiliaries :

(*a*) Punching machine on which an operator could punch 500/600 cards in a day.

(*b*) Verifying machine
(*c*) Sorter
(*d*) Collator
(*e*) Reproducer
(*f*) Tabulators

} with matching capacity

Operations Mechanised

The following operations were turned over to the machines :

(*i*) Printing of bills and notices of property taxes.

(*ii*) Compilation of accounts in the form of demand and collection registers.

PROCEDURE OF WORK

(*i*) The zones had to furnish basic data on relevant points to the machine section. This had to be done in the beginning at the time of introduction of machine and subsequently as and when the transactions took place that would affect the accounts.

(*ii*) The information had to be supplied on standardised forms suitable to each type of the transaction, *viz.*, (*a*) change made in the assessment of the property, (*b*) remission or refund of tax allowed, (*c*) new demand created, (*d*) payments received, (*e*) dishonoured cheques, and (*f*) rectification of errors.

(*iii*) The machine section had to prepare a card in respect of each demand in arrears and each current/demand at the beginning of the year and subsequently for each of the transactions mentioned in the preceding clause immediately after the information was received by it.

(*iv*) The cards continued to be fed into the main machine from day-to-day so that at the time of preparation of bills, notices and annual accounts, all these transactions were faithfully reflected and bills and notices showing correct amounts were turned out automatically.

FINDINGS OF THE O & M STUDY

Mechanisation generally leads to simplification of working procedures and reduction of work, increased efficiency and speed of work and economy in working costs. So far as the ADP section is concerned the position in regard to each of these expected advantages emerged as follows :

Work Simplification

An examination of the procedure of preparing bills and notices on the ADP machines as well as that of preparing them manually revealed that, as a result of mechanisation, the bill clerks in the ADP zones, who were responsible for furnishing the basic information necessary for the working of the ADP machine, had actually been saddled with some additional work. The information which was ordinarily noted down directly from the files into the other records, such as the demand and collection registers, by the bill clerks in the non-ADP zones, had in the case of the ADP zones, to be communicated by the bill clerks in about a dozen additional forms introduced specifically for the purpose which makes the process very cumbersome, time consuming

and tedious. About 50 per cent of the work involved in preparing bills and notices had to be done manually or semi-manually and the machine could do only the rest about 50 per cent.

Efficiency

A study of the working of the machine had also revealed that the existing machine suffered from the following major mechanical or other defects which had decidedly acted to the detriment of its efficiency :

(*i*) The existing data processing machine could simply print the bills; it could not make calculations of tax. Such calculations, where necessary, had to be got done separately on an outside computer, on payment, varying from year to year according to the volume of work to be done.

(*ii*) The machine had a limited column capacity and, therefore, it could not print certain entries like 'notice fee' amount or totals beyond 'lakhs', which had to be entered in hand.

(*iii*) Fluctuation of electric supply occasionally caused the machine to commit mistakes leading to faulty maintenance of accounts and/or erroneous billing, resulting in considerable inconvenience to the tax-payers who had to travel all the way to the ADP section to get the necessary corrections made. It gave rise to a lot of resentment amongst the tax-payers.

(*iv*) The machine did not print alphabets, it used numerical codes for description of the property, and types of dues and payments entered in the bills and notice, which were not intelligible to many people who were consequently put to considerable difficulty in understanding the contents of the bill.

(*v*) For printing of addresses on bills and notices the services of Adrema machines had to be used to supplement the work of the ADP machine.

(*vi*) The machine was not capable of selective processing of data and, therefore, it had to print the entire lot of data fed into it even where it was not necessary to do so. For instance, notices of demand were printed even in case where payment had actually been received against the bill and no notices were required to be sent. This process involved avoidable loss of time and unnecessary expenditure on stationery and labour.

There were some other factors also which affected the efficiency of the ADP section.

Due to low efficiency level of the technical and semi-technical staff, all information punched on the cards by the punch operators and

mechanically verified by the verifiers was at first actually being put in print for a preliminary check-up before it could be finally used in preparation of the bills and notices. This process involved a lot of waste of time and effort and expenditure on stationery.

Also, due to the inefficiency of the bill clerks in the zones, communication of information about payments, or other decisions in relation to reduction or increase of taxes was often delayed or inaccurate information was sometimes communicated to the ADP section. These factors resulted in wrong posting or non-posting of credits, leading to faulty maintenance of accounts and consequent erroneous billing, again causing inconvenience and harassment to the tax-payers. This had caused a lot of resentment in a large number of cases and brought a bad name to the corporation.

Speed

The chief advantage claimed for the ADP machine was the speed with which the bills and notices could be prepared and printed. The study revealed that, on an average, the work of mechanical preparation and printing of the bills and notices (including the time taken in despatch) was done in about one-fourth of the time in comparison to the time taken in the manual preparation of bills and notices (and their despatch) in the non-ADP zones. This advantage had, however, largely been offset by the complications created as a result of the rush that resulted both at the headquarters, and in the zones. At the headquarters, in order to cope with the problem of expeditious despatch of bills and notices, additional special staff had to be deployed each year, either by employment of *ad hoc* staff or by diversion of staff from other sections, this causing additional expenditure and dislocation of work in the depleted sections. The despatch work, in fact, had to be regulated by holding up the issue of the printed bills in order to avoid heavy rush of payments in the zones. The advantage of speed expected to flow from mechanisation was, therefore largely lost.

Other Weaknesses of Mechanisation

There were some other major weaknesses inherent in the existing system of mechanisation. Duplicate records, such as copies of demand and collection registers, had to be maintained both in the ADP section as well as in the zones, at considerable expense of labour, time and stationery, so that the zonal office could refer to them and effectively answer any queries from the tax payers who visited the zones for making payment, etc. Such duplication of record had, however, hardly helped because the zonal bill clerks did not care to keep the posting

up-to-date, and merely directed the property owners to refer their enquiries to the ADP section.

Mechanisation had also inevitably led to a certain degree of 're-centralisation' of the work of the A & C department and thus acted against the spirit of administration, decentralisation decided upon by the corporation as a policy.

Economics of Mechanisation

When the scheme for mechanisation was worked out it was anticipated that it would result in a monthly saving of about Rs. 13,000 in establishment costs. Actually, however, no such saving has materialised. On the contrary, staff costing about Rs. 98,000 (including new posts costing about Rs. 42,000) a year has had to be provided for the work of the ADP section alone.

The work relating to Rs. 1,26,100 demands was being done mechanically. In addition to 22 posts of technical and non-technical categories costing about Rs. 98,000 a year, which were being utilised in the ADP section to operate the machine and to attend to other related work, 20 posts of LDC Bill Clerks and 5 posts of UDC had to be provided in the ADP zones for collection and transmission of basic data from the zones and doing other work of the bill clerks. These posts together cost about Rs. 1,04,150 a year so that the total cost of staff engaged in mechanisation was about Rs. 2,02,150 a year. The annual hire charges of the machine came to about Rs. 91,800 a year and contingent expenditure on cost of special stationery, cards, calculation charges, maintenance of air conditioning plant, and payment of overtime allowance, etc., accounts for another Rs. 48,050. The total cost of handling about 1,26,000 mechanically, thus, came to about Rs. 3,42,000 which worked out to about Rs. 2,72 per demand.

On the other hand the work relating to about 1,29,800 demands, not handled by the ADP section was done manually by 30 LDC bill clerks and supervised by 8 UDCs and their annual wages bill ran up to about Rs. 1,59,000. Including another Rs. 5,000 for the cost of stationery, etc., the total annual expenditure on handling about 1,30,000 demands manually come to about Rs. 1,64,000 and this worked out to about Rs. 1.26 per demand.

Comparatively speaking, therefore, the cost of handling the work relating to a single demand mechanically was twice as high as the cost of handling it manually.

CONCLUSIONS

Thus the experiment of partial mechanisation had failed to achieve any of its objectives of efficiency, speed or economy. Further discussions

with the suppliers also revealed that the existing machine did not have any spare capacity for taking over the work of any other zone, so that, even with its current defects, its coverage could not be extended to other zones, so as to bring about uniformity in their working. It also transpired that the hire-contract for the machine was an open contract which had enabled the suppliers to raise the rental rate from time to time as it suited them, so that the monthly rental had risen from Rs. 6,915 in 1966-67 to Rs. 7,650. It was thought to look for a more efficient and economical alternative, which would form the basis of a uniform, efficient and economical arrangement for preparation of bills and notices and maintenance of accounts in all the zones, keeping public convenience also in view.

THE ALTERNATIVES

The nature and volume of the work required to be done strongly seemed to suggest the need for providing complete mechanisation through a computer, the installation of which could remove most of the defects and shortcomings of the existing machinery. This, however, involved a huge initial outlay or a sizable monthly expenditure on hire and maintenance of the machine, making the operations very costly unless its capacity was fully utilised by computerizing the billing and accounts work of all the departments of the general wing and also of the three undertakings a step which would have inevitably led to partial 'recentralisation' of the activities of all these departments, leading in turn, to various other problems.

Another possibility could be the installation of an improved type of ADP machine, free from the defects of the existing machine and capable of undertaking the work of the A & C department in all the zones. It was estimated that the provision of such improved machinery would involve an expenditure of about Rs. 2.5 lakh a year on hire charges, etc., in addition to costs of extra operational staff needed. This step, besides further increasing the cost of the operations will also lead to 'recentralisation' and inevitably to some inconvenience to public. Both the computerisation and improved mechanisation also accentuate the problem of 'peak periods' of work, necessitating deployment of additional staff to clear the 'rush' of work involved in despatch of bills and notices and receipt of payments at the cash counters, thus leading to additional expenditure on special staff or dislocation of work, both at the headquarters and in the zones. Since neither the computer nor the improved machinery, with Hindi alphabets, was available, mechanisation, either way, would have also hampered the programme of bringing in Hindi in the official work and thus only thwart the strongly pronounced policy of the corporation in the matter.

The only feasible alternative to adopt was, therefore, a complete reversion to the manual process of preparing bills and notices in all the zones, after disbanding the partially mechanised arrangements. Experience suggested that this work had by and large been handled more smoothly in the four non-ADP zones where it was being done manually inasmuch as the incidence of erroneous billing and the result of complaints were practically non-existent in those zones. Similarly, there was no dislocation of work there at that time when the bills and notices were despatched or the payments start coming in because the despatch of bills and notices was smoothly staggered over a period and the existing staff could cope with the day-to-day work, without needing such additional assistance.

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